PREM 19/1728

Student Loans.

300

EDUCATION

PART ONE.

MARCH

~~April~~ 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
15.4.81		~~25.10.85~~					
~~22.1.82~~		~~28.10.85~~					
~~10.2.82~~		~~31.10.85~~					
~~2.3.83~~		~~7.11.85~~					
~~16.3.83~~		~~12.11.85~~					
~~23.3.83~~		~~15.11.85~~					
~~30.3.83~~		~~20.11.85~~					
~~3.5.83~~		~~3.12.85~~					
~~9.5.83~~		~~6.12.85~~					
~~10.5.83~~		~~12.12.85~~					
~~23.5.85~~		~~16.5.86~~					
~~3.6.85~~		19.5.86					
~~10.6.85~~		ENDS					
~~13.6.85~~							
~~21.6.85~~							
~~25.6.85~~							
~~27.6.85~~							
~~10.7.85~~							
~~11.7.85~~							
~~25.9.85~~							
~~1.10.85~~							
~~9.10.85~~							
~~10.10.85~~							
~~21.10.85~~							

PART 1 ends:-

DRN to PS/LPC 19.5.86

PART 2 begins:-

LPC to PM 6.6.86

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(85) 24th meeting, item 5	11/07/1985
C(85) 16	08/07/1985
H(83) 18	09/03/1983
H(83) 17	08/03/1983
H(83) 15	01/03/1983
H(81) 12th meeting, item 2	30/03/1981
H(81) 26	23/03/1981
H(81) 27	25/03/1981

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed ____________ Date 19/09/2014

PREM Records Team

L05ARU

cc B.G

10 DOWNING STREET

19 May 1986

From the Private Secretary

STUDENT SUPPORT

The Prime Minister has seen the minutes of the discussion of H on Thursday, 15 May, about social security benefits paid to students.

The Prime Minister has noted in particular that it would be necessary to lay Regulations before Parliament early in June. She believes that the timing of this is appalling, bearing in mind, among other things, the likely controversy this week about funding for the universities.

I am sure that at this stage she would not want any action put in hand to change or delay the timing. But I expect the Prime Minister would welcome an opportunity to comment before a final decision is taken about the date of the announcement.

I am copying this letter to Andrew Lansley (Office of the Chancellor of the Duchy of Lancaster) and to Michael Stark (Cabinet Office).

DAVID NORGROVE

Miss Joan MacNaughton,
Lord President's Office.

F.R.

CONFIDENTIAL

PRIME MINISTER

STUDENT SUPPORT

The Green Paper on the reform of social security set the objective of returning to a situation in which publicly-funded help for students is provided through the grant system rather than through the social security system.

H Committee have now agreed a package of measures which go part of the way towards this, and save £14 million in 1986/87 and £23½ million a year thereafter. As recommended by the Social Security Advisory Committee, they have also agreed that there should be a review of student support.

In order to make the savings during the next academic year it will be necessary to lay the regulations before Parliament early in June. This will probably be done at or about 3 June, after another meeting of H Committee to discuss the proposed review in greater detail. (The review is likely to be internal, without a specified ending date.)

The sensitivity of these changes will of course be increased by the likely controversy next week about university funding, on which there are papers next to these in your box.

The timing is appalling.

DCN

mt

DAVID NORGROVE

16 May 1986

L05AAJ

NBPM

MR ADDISON 16 May 1986

cc Mr Willetts

H COMMITTEE ON 15 MAY, STUDENTS AND BENEFITS

There was a consensus that £100m currently paid to students by DHSS (Sup. Ben. and Unemployment Benefit) should be paid to them through the DES. The main question arising was how this could be achieved. Keith Joseph made the fundamental point, supported by the Committee, that it was wrong to put students in a position of social dependency when they left school.

Norman Tebbit expressed deep-rooted unease about a review that might produce costly results. There was a dispute as to whether a review - if carried out - should be speedy, or should carry the matter past the next general election. The Lord President was against a review that continued during the next general election.

There was some discussion of the merits of loans. The Lord Chancellor said the courts could not cope with a new spate of student loan defaulters.

The package of proposals was desirable and the Lord President concluded that there should be a review, but that it should be internal under the chairmanship of Norman Fowler, and that it should be without a specified period. The details would follow discussions between Norman Fowler, John MacGregor and Keith Joseph, when they could agree a way of presenting the decision concerning the package attractively.

HB

HARTLEY BOOTH

PS Subsequently, the Cabinet Office informed me that it was intended to announce the package on or about 3 June, after another meeting of 'H'.

MR ADDISON 15 May 1986

H COMMITTEE ON 15 MAY, STUDENTS AND BENEFITS

There was a consensus that £100m currently paid to students by DHSS (Sup. Ben. and Unemployment Benefit) should be paid to them through the DES. The main question arising was how this could be achieved. Keith Joseph made the fundamental point, supported by the Committee, that it was wrong to put students in a position of social dependency when they left school.

See SOCIAL SERVICES: Review of Social Security: Part 4.

Norman Tebbit expressed deep-rooted unease about a review that might produce costly results. There was a dispute as to whether a review - if carried out - should be speedy, or should carry the matter past the next general election. The Lord President was against a review that continued during the next general election.

There was some discussion of the merits of loans. The Lord Chancellor said the courts could not cope with a new spate of student loan defaulters.

The Lord President concluded that there should be a review, but that it should be internal under the chairmanship of Norman Fowler, and that it should be without a specified period. Any announcement would follow discussions between Norman Fowler, John MacGregor and Keith Joseph, when they could agree a way of presenting the decision attractively.

HB

HARTLEY BOOTH

LT

CC

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Parliamentary Under Secretary of State for Social Security

Iain MacKinnon
Private Secretary to the
Secretary of State for Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

12 December 1985

NBP? at this stage

Dear Iain

TRAINING LOANS

Thank you for the correspondence which was recently copied to this Department.

Officials here had commented on the proposed scheme after receiving a request for advice from your Department on the application of the part-time study/training concession, available to supplementary benefit claimants, to loan scheme trainees. However, the advice given was in very broad terms and it may be helpful if I explain why my Department's response appeared negative.

The entitlement to unemployment benefit and supplementary benefit of an unemployed person depends on his being available for work. The independent adjudicating authorities have responsibility for deciding all questions relating to availability, but a common test applied where a claimant is taking any course of study/training is the extent of the individual's commitment to his course. Officials here observed, therefore, what appeared to be a fundamental conflict between the aims and operation of your scheme and the principle of availability which underpins the 21 Hour Rule. The individual who sells himself to a bank as a loan applicant appears to be demonstrating a primary commitment to his chosen course and the prospect of further qualifications, rather than to obtaining employment at the earliest opportunity.

I recognise the value of any initiative intended to assist work seekers to acquire or enhance useful skills. However, the 21 Hour Rule was intended as a concession enabling the unemployed usefully to fill some spare time whilst job-seeking. It was not intended to provide funds for, or to subsidise, training or education and we would have a good deal of difficulty in coping with further erosion of the principle of availability upon which our concession was founded.

I am copying this letter to private secretaries to the Prime Minister, members of E(A), the Secretary of State for Education and Science and to Sir Robert Armstrong

Yours ever,

Norman Cockett

NORMAN COCKETT
Private Secretary

EDUCATION MARCH 81
STUDENT LOANS

022/104

CONFIDENTIAL

~~CE~~ BG

CF
PV comments?
BF 10/12
DRS 6/12

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Young of Graffham
Secretary of State
Department of Employment
Caxton House
Tothill Street
London
SW1H 9NA

6 December 1985

Dear David,

TRAINING LOANS

Thank you for your letter of 15 November with your proposals for a new training loans pilot scheme.

The experiment, if it goes ahead, will be an interesting one. My predecessor expressed some scepticism about the extent of the market, and it will be crucial to ensure that we learn about this from the experiment. But there is one aspect of it which concerns me very much and which I think bears directly on its prospects for success. I understand that Department of Health and Social Security officials have advised that borrowers are not likely to be treated as available for work and will not therefore be entitled to benefit. This means borrowers will be worse off than those getting grants. In principle I prefer loans to grants and greatly dislike disincentives to loans in the system. Is there anything we can do about it?

On other aspects of the scheme, I do not like the 100 per cent guarantee for individual loans although I welcome the portfolio limit. But since you have made it clear that there is no prospect of renegotiating the pilot, I am prepared to agree in order to get this scheme off the ground, provided that it is made clear to the banks that there could be no commitment to maintaining the 100 per cent guarantee if eventually, after evaluation, we decided that the scheme should be extended. Moreover, I should make clear that the Treasury would be unlikely to agree to extension without both a portfolio guarantee and a less than 100 per cent guarantee for individual loans.

There are also some areas of concern which will need to be covered carefully in the detailed rules and policing methods of the scheme: the possibility of (subsidised) loans being made in part for living expenses to those who do not need such support; or of employers agreeing with their employees that the employee should accept a loan for a training course which the employer would otherwise finance wholly, on condition that the employer refinances the (subsidised) interest and repayments; or, finally, that trainees may evade the requirement to put up their 20 per cent share.

I gather that your officials have been in touch with mine about the evaluation procedures. As you know, I attach great weight to proper evaluation of such pilots, and I would like to ask for a joint report from our officials within the next few months on the aims and procedures of evaluation, and the likely timing of results. We should ensure that we have evaluated the results thoroughly before there is any question of extension. There is of course no commitment on the part of the Treasury to agree to any extension, and we should take care in presenting the pilots not to say anything which could imply such a commitment.

I gather that the pilot would if agreed start in April 1986, and would cost, according to the estimates in Annex B to your note, less in each of the Survey years than the sums set aside for the purpose. That implies that the £5 million available for this scheme in 1985-86 is now not needed; nor is about £1.5 million in 1986-87, and £1.2 million in each of 1987-88 and 1988-89. These sums should be ring-fenced as savings, to be surrendered in the absence of specific agreement that they can be used for any other purpose.

In sum, I think that your proposals represent an imaginative experiment; I would be content to agree that you should seek to finalise the details with the banks and to set up a pilot scheme on the basis set out in this letter. I would be most grateful if your officials could agree with mine the date and method of announcement, and clear the terms of the statement and briefing.

I am sending copies of this letter to the Prime Minister, members of E(A), Keith Joseph and to Sir Robert Armstrong.

Yours ever,

John

JOHN MacGREGOR

Education: Student Loans Mar 81.

cc BG

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Lord Young of Graffham
Secretary of State for Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

3 December 1985

Dear Secretary of State,

NBPM

TRAINING LOANS

Thank you for sending me a copy of your letter of 15 November to Nigel Lawson.

In Northern Ireland we shall be taking a keen interest in your experience in operating the 3-year pilot. We shall pay particular regard to the extent of demand and the level of uptake under the Scheme as these factors may oblige us to mount a similar initiative before the expiry of the GB pilot arrangements.

In general terms you are aware of my support for training loans. I do regard them as an appropriate and cost-effective means of expanding training effort in areas of known demand.

I am sending copies of this letter to the Prime Minister, other members of E(A), Keith Joseph and to Sir Robert Armstrong.

Yours sincerely

N J Ward
(Private Secretary)
for TK

(Approved by the Secretary of State and signed in his absence overseas)

EDUCATION
STUDENT LOANS
MAR 81.

cc BG

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

29 November 1985

NBPM

Dear David

Thank you for copying to me your letter of 15 November to the Chancellor of the Exchequer.

It is unfortunate that the Banks have proved so reluctant to participate in this Scheme and have pushed our commitment beyond the level that we thought appropriate earlier. This is, of course, a new area of business for the Banks and perhaps for that reason, their attitude is not altogether surprising.

However, the concept of training loans is important and figures quite prominently in the training framework of many of our competitor countries. It is important therefore that we take steps to test the market here to see what kind of potential actually exists and how best we can exploit it. I am therefore happy for you to proceed on the basis of the proposals outlined in your letter.

I am copying this to the Prime Minister, Members of E(A), the Secretary of State for Education and Science and Sir Robert Armstrong.

Yours ever

Nick

Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
LONDON

Education - Student Loans
March '81

B/F tomorrow 21/11. with Treasury

PRIME MINISTER NBPM 20 November 1985

TRAINING LOANS

In principle, training loans are an excellent idea. They will introduce the public gradually to the idea of loans instead of grants; and, unlike student loans, they are popular.

But the scheme now being offered by David Young looks poorly designed. The head offices of the banks may be far too lax in administering the scheme during the first 18 months, because they will know that they can afford to lose 40% of their total lendings without having to pay a penny: the Government will mop up the debt. And individual branch managers will not have any method of assessing risk: they may each make extremely risky loans, on the assumption that managers of other branches will be making safer bets, and in the knowledge that head office can look to the Government to cover all the bad debts that could be expected to accrue.

Couldn't David Young go back to the banks with a slightly tougher proposal - insisting that the bank itself should bear at least some small fraction (say 10%) of <u>each</u> bad debt? This way - although the Government would still be liable for 40% of the total amount lost during the first 18 months - both the individual branch manager and his head office would have an incentive to act responsibly right from the start.

When Department of Employment officials tried this on the banks before, they did not succeed - largely because they did not make any matching concession. If the Government offered to balance the new requirement by (for example) increasing the interest rate paid during the "repayment holiday", the banks might well accept the deal.

We recommend that you should:

- welcome David Young's plan in principle; but

- ask him to negotiate further, offering the banks a higher interest rate during the "repayment holiday" in exchange for their agreement to bear at least a small fraction of each bad debt.

OL

OLIVER LETWIN

EDUCATION: Student Loans 1 March 81.

cc BG

B/F with ~~any comments & in any case~~ 21/11

Tsy comments?

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460
Switchboard 01-213 3000

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Great George Street
LONDON
SW1

15 November 1985

Dear Nigel,

TRAINING LOANS

I am writing to let you know the outcome of discussions with banks on setting up a pilot scheme to test the market for training loans. In entering into talks with 10 banks my officials had in mind the proposals set out in Tom King's letter of 8 May and also the objectives advocated by Peter Rees in his letter of 23 May 1985. At the end of a long and difficult round of meetings 3 banks, Barclays, the Co-op and the Clydesdale agreed to participate, subject to working out detailed arrangements for implementation. The main sticking points were the level of guarantee we were prepared to offer and the adverse effect on profitability of the extra cost of running a scheme jointly with Government.

will request if required

Main proposals

I now propose a 3 year pilot scheme with an overall portfolio of £12m. The 2 new incentive features of the scheme - the portfolio guarantee and the repayment holiday - have been accepted. As in the earlier proposals, we will offer participating banks a limited guarantee to set the Government's maximum liability at a fixed percentage of the value of loans issued. It proved impossible to reach an agreement within the target range of 10-15%, and I now propose a tapering guarantee at 40% for the first 18 months and 20% for the second 18 months. A tapered guarantee has 2 advantages: it should encourage the banks to be more adventurous in the critical first 12-18 months of expanding into an unknown area of risk and, without prejudice to any permanent scheme, it enables us during the pilot to assess the impact of different levels of guarantee. For the repayment holiday for borrowers during the period of training and up to

This does not in fact limit the Government's exposure effectively. But Tsy are going along with it.

3 months afterwards we will pay interest to the banks at base rate plus 3% - a much better level than we had thought likely. After 3 months borrowers will pay interest at the banks' normal personal loan rates.

Eligibility

To be eligible for a loan under the scheme, applicants must be over 18, meet DE's criteria - see Annex A - and be assessed as creditworthy by the banks, taking account of the portfolio guarantee. Loans of between £500 and £5,000 could be made available for training fees (less 20% provided by the trainee), living expenses and other related costs.

Expenditure

The actual costs to the Exchequer will depend on factors such as take-up, interest rates and the level of bad debts. Annex B discusses the variables and costs in more detail. For a scheme involving 3 banks and 4 geographical pilot areas I expect to be able to contain the overall costs within the provision for training loans agreed in PES 85, although the funding will need to be spread over a longer period. Our target is to stimulate loans worth £12m. At the end of the pilot with a guarantee at 20% this will produce a gearing of around 1 to 3 in other words we shall get £3 worth of training for every £1 of Government expenditure. This is clearly a cost-effective way of expanding training in areas of known demand where employment prospects are good. My officials and yours are in touch about how to evaluate the scheme.

Pilot Areas

We and the banks think it is best to market the pilot strongly in a few, carefully selected areas. The pilot areas we consider most suitable are Aberdeen, Manchester, Bristol and Reading/Slough. For the pilots access would normally be limited to people living in these areas or taking up a training course there, but the banks expect to interpret these geographical limits fairly flexibly. Visits to the pilot areas have shown an encouraging level of enthusiasm for loans from local training providers and bank managers.

Legal and Community Aspects

The Law Officers have already confirmed that a guarantee scheme is feasible under the Employment and Training Act, and the proposals are considered compatible with our Community obligations. There are 2 other aspects which I should mention. We have recently been advised by DHSS officials that people borrowing money to fund training under the scheme would not normally be regarded as entitled to benefit, as payments depend on the individual being available for work. They take the view that the concession for part-time study (under 21 hours a week) does not apply to vocational training (with the exception of certain MSC funded work preparation courses) and that borrowers would be primarily committed to training not employment. This means of course that the benefit system will effectively deter unemployed people from taking out a loan for training in the same way as with those wanting to undertake MSC 'fees only' courses. This does mean that the scheme will tend to be seen as primarily for the employed.

The loans scheme will come under the Consumer Credit Act, and consultations with banks on its implications indicate considerable difficulties to be overcome in reconciling the Act's provisions with the same novel features of the scheme. My officials are in touch with DTI officials to resolve the problems as a matter of urgency.

Next Steps

The banks that have declared themselves willing to join us see this scheme as a worthwhile experiment of genuine public interest. I share that view. Even a small pilot scheme, operating in 4 areas of Britain with different social and economic characteristics, can demonstrate the potential for operating a loans scheme and harnessing private capital to promote vocational training. It can test and influence the market, by providing impetus for personal investment in training.

I am satisfied that we could not have driven a harder bargain with the banks without them all dropping out and that it is not practicable at this stage to re-open negotiations on this package. I have been in touch personally with the Chairmen of the major clearing banks, but with the exception of Barclays they remain of the view that the scheme is not sufficiently attractive to them.

We have the basis for a worthwhile pilot scheme and now that detailed discussions on implementation are at last underway, I hope that colleagues agree to my pressing ahead with the plans I have outlined with a view to signing agreements with the banks, and to my making a Parliamentary announcement soon (probably by Written Answer).

SECRETARY OF STATE FOR EMPLOYMENT

I am copying this letter to the Prime Minister, members of E(A), the Secretary of State for Education and Science and Sir Robert Armstrong.

Yours,

David

ANNEX A

DE ELIGIBILITY CRITERIA

For the Scheme:

An applicant will be asked to confirm that:

(1) He or she intends to use the training for employment or self-employment in the UK or elsewhere in the European Community;

(2) the proposed course is appropriate for the intended occupation;

(3) the loan requested is for a minimum of £500 and a maximum of £5,000;

(4) that the course lasts for at least one week but no more than one year;

(5) that the course does not qualify for a mandatory student award;

and (6) that no part of the fees is being financed by an employer nor is the applicant receiving public funds for the course.

For Maintenance:

An applicant will be asked to confirm that:

(1) the loan is needed for day to day living expenses;

(2) he or she works for less than 30 hours per week;

and (3) he or she is training on the course for more than 21 hours per week.

COST ESTIMATES FOR TRAINING LOANS PILOT SCHEME

1. The target for the pilot scheme would be to make available each year £4m of new loans for a period of 3 years. Costs will be attributable to 3 main elements: the repayment holiday, the portfolio guarantee and marketing and evaluation. Actual expenditure will depend on the take-up rate of loans, the level of base rate; the average size of loans; the average length of course and the level of bad debt. At this stage without experience of the public's response and bank managers' attitudes it is only possible to make broad assumptions for estimating purposes.

Repayment Holiday

2. The cost of offering borrowers a repayment holiday depends on the prevailing rate of interest, the average length of course and the length of the 'period of grace' (to allow for trainees finding employment). The formula agreed with the banks for calculating the rate of interest payable by Government is base rate plus 3%, but costs will inevitably fluctuate over time and no firm ceiling can be put on this element as with the portfolio guarantee limit. Courses can be between 1 week and 12 months, and average course length is an unknown quantity until we have some experience of operating the scheme. A figure of 6 months has been assumed for the costing. The grace period, has been set at a maximum of 3 months, with the banks having discretion to fix the period within that limit.

Portfolio Guarantee

3. The aim of offering participating banks a portfolio-based guarantee is to put a firm ceiling on a potentially costly element of a loan guarantee scheme. The Government's financial commitment will be to meet the costs of bad debts (principle plus interest calculated in accordance with an agreed formula) up to a fixed percentage of the value of loans issued by each participating bank. The aim of a 'tapered' guarantee is to provide some additional encouragement to banks to expand the market at a time when experience of the level of extra risk likely to be incurred is being acquired. The maximum level of guarantee to apply during the pilot has been agreed at 40% for 18 months and coming down to 20% for the subsequent 18 months, ie an average of 30% over the period. The expectation is that banks will start off cautiously even with the higher level of guarantee, and that actual claims against the guarantee might be lower than the Government's maximum liability.

Marketing and Evaluation

4. Effective marketing and evaluation of the scheme will be essential, and a budgetary allocation to cover these costs is considered a vital part of the pilot scheme. £0.5m has been allocated.

Projected Costs

5. For the purpose of illustrating the order of costs of the scheme we have made the following assumptions: a total portfolio value of £12m, take up of 100%, interest rate of 15%, repayment holiday of 9 months, and an average default rate of 30%. The total cost is estimated at £5.9m. The table shows these over 6 years, although commitments stemming from the portfolio guarantee will fall during this period, allowing for a 5 year repayment period for larger loans.

TRAINING LOANS: ILLUSTRATIVE LIFETIME COSTS (£m CASH)

	86/87	87/88	88/89	89/90	90/91	91/92	TOTAL
Repayment Holiday	0.5	0.5	0.5	-	-	-	1.5
Portfolio guarantee	0.1	0.5	1.0	1.3	0.8	0.2	3.9
Marketing/ evaluation	0.2	0.2	0.1	-	-	-	0.5
	0.8	1.2	1.6	1.3	0.8	0.2	5.9

Gearing

6. Allowing for the 20% training contribution from individuals the ratio of public to privte expenditure for the period as a whole is 1:2.5. This rises to 1:3.2 once the guarantee level falls to 20%. Both figures assume 100% take up of loans and full take up by the banks of the guarantee facility.

Education March 1981
Student Loans

RBG

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Education and Science
Department of Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

12 November 1985

NBPM

Dear Keith,

REVIEW OF STUDENT SUPPORT

Thank you for copying to me your letter of 31 October.

As you know I fully support your decision. As it reflects collective views and as I was associated with the original announcement of the review, I think it would be appropriate for your Answer to record my agreement to what is now proposed. My officials are in touch with yours on the form of words.

I am copying this letter to the Prime Minister, Quintin Hailsham, Nigel Lawson, Nick Edwards, Leon Brittan, Norman Tebbit, Tom King, David Young and John Wakeham, and to Sir Robert Armstrong.

Yours ever,

George

LBU03102.115

EDUCATION : Student Loans : March 87,

From the Secretary of State
With the Private Secretary's Compliments

Alison Kennedy 11/11/88

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

MR 01D3

cc BG

TF has seen

FOR INFORMATION

REVIEW OF STUDENT SUPPORT

(Ref: Secretary of State for Education and Science to the Chancellor - 7 November)

The sentence order of the answer to the Parliamentary Question has been re-arranged and the text will now be:

> The possibility of replacing maintenance grants wholly or partly with loans has been ruled out at the present time by the Government. As I announced on 17 July at Col 165, I have been considering the publication of a consultative document in which student loans would not feature as an option, but have concluded that no useful purpose would be served by the publication of such a paper.

Student Grants: EDUCATION
Mar 81.

NR

CEBG

2

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

FROM THE SECRETARY OF STATE

Prime Minister

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

7 November 1985 7/11

Dear Nigel

REVIEW OF STUDENT SUPPORT

The Prime Minister and you have suggested some modifications to the text of the arranged Parliamentary Question which I circulated with my letter to you of 31 October.

I understand that the Prime Minister wishes the reply to refer to my earlier announcement about the Government's decision not to pursue loans as an option. You would like to avoid giving the impression that the idea of student loans has been rejected for all time (your Private Secretary's letter of 5 November). I propose therefore to reword the answer as follows:

> As I announced on 17 July at Col 165, I have been considering the publication of a consultative document in which student loans would not feature as an option. The possibility of replacing maintenance grants wholly or partly with loans has been ruled out at the present time by the Government, and I do not therefore consider that any useful purpose would be served by the publication of a consultative paper.

I have now seen Norman Tebbit's letter of 4 November in which he proposes that we should say that the review will continue and be open to views from the public, but I understand that he has since said that he would be prepared to accept an answer such as that above.

I therefore propose to make the announcement early next week on the lines suggested above. If any sensible changes to the awards system are nevertheless urged upon us, they can be considered in the regular internal review which my Department undertakes each year. I and my colleagues here will find opportunities in the House and elsewhere of making this clear.

I am copying this letter to the Prime Minister, Quintin Hailsham, George Younger, Nick Edwards, Leon Brittan, Norman Tebbit, Tom King, David Young and John Wakeham, and to Sir Robert Armstrong.

Yours ever
Keith

Education: Student Loans March 87

CC BG

Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Tel No: 233 3299
7471

4 November 1985

The Rt Hon Keith Joseph Bt MP
Secretary of State for Education and
Science
Elizabeth House
York Road
LONDON
SE1 7PH

Prime Minister ?

To note.

DLW
6/11

D Keith

REVIEW OF STUDENT SUPPORT

Thank you for the copy of your letter of 31 October to Nigel Lawson.

I am not sure that you have rightly deduced from colleagues' comments, in response to your earlier letter, that we should wind up the review in the rather peremptory way suggested in your PQ; for example, David Young supported my view that the review should be carried forward, but without a consultative paper or other formal procedure.

In the light of this, I wonder if you might care to reply to the PQ in a different way. May I suggest something like:

> "No. The review will continue for the present, however, and be open to views from the public, with the proviso that the Government have considered and rejected the option of a system of student loans, and the further options will be considered against the Government's necessary objective to limit the cost of student support, which remains so much higher in the UK than in many other countries."

This may serve in part to defuse the criticism, which you foresaw in your letter of 25 September, if the review were simply abandoned at this stage.

I am copying this letter to the Prime Minister, Quintin Hailsham, Leon Brittan, Nigel Lawson, George Younger, Nick Edwards, Tom King, David Young and John Wakeham, and to Sir Robert Armstrong.

Yours
Norman

NORMAN TEBBIT

EDUCATION

STUDENT LOANS

MAR 81

ES

CCBG

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

FROM THE SECRETARY OF STATE

Prime Minister
To be aware.
DRN
31/10.

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

31 October 1985

Dear Nigel.

REVIEW OF STUDENT SUPPORT

Thank you for your letter of 18 October. I have now considered this along with the responses of other colleagues, and the Prime Minister's comments, and I am persuaded that it would be best to abandon the idea of publishing a consultative paper, and to wind up the review.

As you well know, I have always been an advocate of student loans and I regret that this option was rejected in the summer. It is now clear to me that in present economic circumstances there is no realistic alternative way of financing any major changes to the student support system, and I recognise that the publication of a consultative paper would in these circumstances raise expectations which could not be satisfied and would lead to pressure on expenditure.

I shall be announcing the decision about the review by means of an arranged Parliamentary Question early in November (see text attached).

I am copying this letter to the Prime Minister, Quintin Hailsham, George Younger, Nick Edwards, Leon Brittan, Norman Tebbit, Tom King, David Young and John Wakeham, and to Sir Robert Armstrong.

Keith.

ES

QUESTION

To ask the Secretary of State for Education and Science, whether he expects to publish a consultative paper as part of his review of the student support system.

ANSWER

Now that the possibility of replacing maintenance grants wholly or partly with student loans has been rejected by Government, I do not consider that any useful purpose would be served by the publication of a consultative paper.

EDUCATION
STUDENT LOANS
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CONFIDENTIAL file DM

10 DOWNING STREET

From the Private Secretary 28 October 1985

REVIEW OF STUDENT SUPPORT

The Prime Minister has seen your Secretary of State's letter of 25 September to the Chancellor of the Exchequer and the subsequent correspondence. She agrees with the consensus that there would be no advantage and possibly considerable disadvantage in publishing a paper on student support.

I am copying this letter to Richard Stoate (Lord Chancellor's Office), John Graham (Scottish Office), Colin Williams (Welsh Office), Tony Laurance (Department of Health and Social Security), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Jim Daniell (Northern Ireland Office), Leigh Lewis (Department of Employment) and Murdo Maclean (Chief Whip's Office).

(David Norgrove)

Rob Smith, Esq.,
Department of Education and Science

CONFIDENTIAL

CONFIDENTIAL

cc ok

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

NBPM

25th October 1985

Dear Keith

REVIEW OF STUDENT SUPPORT

In PM'S BOX

Thank you for copying to me your letter of 25 September to Nigel Lawson.

I very much agree with Norman Tebbit's view that we should not proceed with publication of a consultative paper on the lines of the draft. Having announced that student loans would not be one of the options on which we would consult, we would risk the criticism, if our principal proposal were to be a graduate tax, that this was tantamount to implementing loans by other means. I, too, would prefer simply to open debate on student support with a general indication of the Government's objectives without seeking support at this stage for specific proposals.

/ I am copying this letter to the Prime Minister, Willie Whitelaw, Quintin Hailsham, Norman Tebbit, Nigel Lawson, George Younger, Norman Fowler, Tom King, John Wakeham and to Sir Robert Armstrong.

Yours ever

Nick

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Education and Science

EDUCATION
STUDENT
LOANS
MAR 81

25 X. PM 85

010 copy

SECRETARY OF STATE FOR SCOTLAND

NEW ST. ANDREWS HOUSE
EDINBURGH EH1 3SX

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Education
and Science
Elizabeth House
York Road
LONDON
SE1 7PH

NBPM

21 October 1985

Dear Keith,

REVIEW OF STUDENT SUPPORT

in PM's Box

Thank you for copying to me your letter of 25 September to Nigel Lawson.

Despite our commitment to a review I am bound to say that I share Norman Tebbit's hesitations and those of others about going ahead with the publication of a paper on the lines which are now proposed. The fact is that the decision that we took collectively in July not to proceed with a loans option has removed from the paper the principal alternative to the present system, and we can hardly disguise what is self-evident: that it is very difficult in present economic circumstances to come up with radicl new proposals which will be generally acceptable.

I think we should now admit this publicly and put an end to the speculation about our intentions. I fully recognise that we shall be criticised for not publising a paper, but we shall be criticised in any case if we do, and consultations will only prolong the agony.

We can pursue the question of students' entitlements to benefits separately. Our intentions have been signalled in the context of Norman Fowler's social security review, although I agree with you that there do not appear to be satisfactory alternatives to the present arrangements for directing support to students who are in need during the long vacations.

I am copying this letter to the Prime Minister, Quintin Hailsham, Nigel Lawson, Nick Edwards, Norman Fowler, Norman Tebbit, Tom King, David Young and John Wakeham.

Yours ever,

George.

EDUCATION : Student Loans : Mar 1981

21.X. PM 8 5

PRIME MINISTER

Attached is a letter from Sir Keith Joseph to Nigel Lawson canvassing the proposal for a draft consultative paper on student financial support in which loans would not feature as an option. We have been waiting for the comments of colleagues on this proposal. Opinion has been universally negative on Sir Keith's proposal with nobody seeing any political gain from the publication of such a document and nearly everyone seeing considerable disadvantage in publishing a paper which has no serious possibility of being implemented. The Policy Unit (note attached) agree with the Ministerial consensus against a document. Do you wish to reinforce Ministerial opinion on this proposal or to leave Department of Education and Science to reach that conclusion without your intervention?

I agree with the Chancellor. I think it is better that Sir K.J. should know

TIMOTHY FLESHER

21 October 1985

RESTRICTED

ゃゅ2

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

18 October 1985

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Education and Science
Department of Education and Science
Elizabeth House
York Road
LONDON SE1

Dear Keith

REVIEW OF STUDENT SUPPORT

Thank you for your letter of 25 September. I have also seen the responses which you have had from Quintin Hailsham, Norman Tebbit, and David Young.

I very much agree with them in seeing no advantage in publishing a consultative document on these lines. Indeed, I see considerable political disadvantage in issuing any such document on student support at the present time.

As regards the specific proposal for a graduate tax, I see no merit in introducing an income tax surcharge to finance additional expenditure on student support. Such a tax would be contrary to our wider policy of reducing the burden of taxation, especially on incomes. And if the tax were confined to those starting degree courses in the future, the yield would only build up very gradually. Meanwhile, we would have to contend with a good deal of immediate hostility. There would also be considerable practical problems to be overcome.

I am also concerned that the draft paper would tend to stimulate interest in ways of increasing student support, and I see no merit in that either. Indeed I know from the public expenditure survey discussions, as from the earlier discussions on student loans, that you are anxious to make savings in this area if acceptable means can be found. A consultative document on these lines could easily lead to our spending more money rather than less.

We have of course decided not to undertake further work on student loans this Parliament. I would nevertheless hope that we could reconsider the idea in the next Parliament. If an acceptable loans scheme could be devised, we could publish a consultative document then. But I think that we should recognise that our decision on student loans has removed any real basis for publishing a consultative document on student support now.

Finally, on removing students from entitlement to social security benefits, I understand that DHSS plan to announce shortly the package of measures to deal with the short vacations problem. I very much welcome this. On the long vacations, as you say, there are some knotty problems to be overcome and I look forward to seeing officials' recommended solutions.

I am copying this letter to the Prime Minister, Quintin Hailsham, George Younger, Nick Edwards, Norman Fowler, Norman Tebbit, Tom King, David Young, and John Wakeham.

Yours
Nigel

NIGEL LAWSON

Education: Student Loans

March 1981

DM/D12

CC OK

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460

Switchboard 01-213 3000

~~cf~~ The Chancellor's letter on this (mentioned in Oliver Letwin's minute) isn't on the file. DPW

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Education and Science
Elizabeth House
York Road
Waterloo
LONDON SE1

10 October 1985

Dear Keith,

REVIEW OF STUDENT SUPPORT

Thank you for your letter of 25 September and the enclosed Draft Consultative Document. I have also seen Norman Tebbit's response of 3 October.

You know from this Summer's discussion how strongly I feel on this issue and I appreciate the very difficult position you are in given the decision not to consider student loans in this review. But, like Norman, I do wonder about the wisdom of publishing a document at all. In the first place both Kenneth Clarke and I have some fairly basic reservations about the graduate tax proposal which runs into many of the disadvantages of a student loan scheme and in addition would involve levying a tax from graduates who had received no maintenance grant at all. I think we would want to press you to drop the proposal and that would of course leave the consultative paper looking rather thin. But over and above that, I fear that to publish now would be to put a very final seal on all the options not in your draft. I would much prefer the kind of more open debate which Norman Tebbit suggests.

In the event that you do proceed with publication, perhaps I could ask you to look again at the suggestion that maintenance grants should only be available for non-vocational subjects. This runs counter to our general intention of trying to ensure that the output of the training and education system is in line with what is demanded by the economy. Giving grants to non-vocational subjects could easily be interpreted as favouring subjects where a surplus of graduates has been produced and penalising subjects where shortages have appeared.

Finally, I have some reservations about the treatment in the paper of the issue of benefits for students in the short vacations. If the paper goes ahead, perhaps this is one of the issues on which my officials can be in touch with yours.

I am copying this letter to the Prime Minister, Quintin Hailsham, Nigel Lawson, George Younger, Nick Edwards, Norman Fowler, Norman Tebbit, Tom King, John Wakeham, and to Sir Robert Armstrong.

Yours,

David

EDUCATION

STUDENT LOANS

MAR 81

CC OK

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LORD CHANCELLOR

HOUSE OF LORDS,
LONDON SW1A 0PW

9 October 1985

N.B.P.R. at this stage.

My dear Keith:

REVIEW OF STUDENT SUPPORT

I have read your letter of 25th September to Nigel Lawson with its accompanying revised Consultation Paper and Norman Tebbit's response of 3rd October.

I wholeheartedly agree with Norman that we should not proceed with publication of the Paper and that we should not pursue the idea of a graduate tax at all.

I am copying this letter to the Prime Minister, Willie Whitelaw, Norman Tebbit, Nigel Lawson, George Younger, Nick Edwards, Norman Fowler, Tom King, David Young, John Wakeham and to Sir Robert Armstrong.

Yrs:

The Right Honourable
Sir Keith Joseph, Bt.,
Secretary of State for Education and Science.

EDUCATION
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PRIME MINISTER 4 October 1985

STUDENT SUPPORT

The Chancellor is right. There is absolutely no point in producing a paper on student support that says nothing about loans, and that raises the spectre of a massively unpopular graduate tax. The best policy is for Keith Joseph to remain silent on this issue: no-one will press him seriously for any further comments, since it is well known that the Government does not intend to pursue student loans.

OL

OLIVER LETWIN

CONFIDENTIAL

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

Tel: 233 3299
7471

CF

B/f 10/10 please.
Could you also ask the ~~others~~ to put in any comments by then?
DGN
4/10

3 October 1985

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Education and
Science
Elizabeth House
York Road
LONDON SE1 7PH

D Keith.

REVIEW OF STUDENT SUPPORT

Thank you for copying to me your letter of 25 September to Nigel Lawson.

I fear that I do not agree that we should proceed with publication of a consultative paper. As I see it, the paper, as drafted, consists of, on the one hand, a limited number of proposals for reducing the cost of student support, the main one of which, a graduate tax, is fraught with objections. On the other hand, Annex B to the paper gives a lengthy shopping list of items which would entail extra cost. Doubtless the education lobby would respond in great numbers to the consultative paper, advocating measures to extend the scope and cost of student support. I do not see how the Government's objectives are to be furthered by such a process.

I do not understand, either, how we are to present it that student loans is not offered as an option in the paper - because we have rejected this - but a graduate tax <u>is</u> offered, although we have not considered it in detail. It will suggest that we are prepared to endorse a graduate tax, when we may by no means be willing to do so, as contrasted to a student loans scheme, which probably had more in principle to commend it.

I suggest that we might consider a more open form of public debate on student support, indicating the Government's objectives -

perhaps by way of a speech - and inviting continuing comments and proposals to effect changes in the system of support for the longer-term.

I am copying this letter to the Prime Minister, Willie Whitelaw, Quintin Hailsham, Nigel Lawson, George Younger, Nick Edwards, Norman Fowler, Tom King, David Young, John Wakeham, and to Sir Robert Armstrong.

Yours
Norman

NORMAN TEBBIT

EDUCATION
STUDENT LOANS
MARCH 81

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CCOC

cc Sir R Armstrong and return pse. 25/9.

CC BJ

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

FROM THE SECRETARY OF STATE

BF | CF To await comments. 25/9.

RESTRICTED

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury
Parliament Street
LONDON
SW1P 3AG

25 September 1985

Dear Nigel,

REVIEW OF STUDENT SUPPORT

At our discussion on the review of student support in Cabinet on 11 July it was agreed that we should not pursue student loans as an option, but follow up other ways of improving the present arrangements for student support.

I have since been considering the possibilities and how best we might carry forward the review. My belief is that the issues probably still merit a public consultation. With this in mind I announced to the House on 17 July that I was considering the publication later in the year of a consultative paper on student financial support in which loans would not feature as an option.

My officials have now worked up a revised consultative paper which covers a range of proposals for change. I enclose a copy. The underlying assumption is that our system of student support is generous compared with that of other countries and that the contribution made to it by the taxpayer should not be increased. It follows from this that any changes to the present system should either save money or be balanced by other changes which do.

Among the proposals in the consultative paper is that of a graduate tax. I know that you yourself see objections to the idea. But, given that we are looking for means of financing improvements and that a graduate tax is the only significant alternative to the present system (a loans option having been rejected), it does I believe deserve an airing. In any case the proposal is bound to be raised in the consultation.

Another topic which needs to be publicly debated is the way in which we can achieve our long term aim of removing students from entitlement to benefits. My officials are already discussing the options with their DHSS counterparts, and treatment of this issue in the consultative paper will need to reflect their conclusions. It is apparent however that there is no obvious

Continued/...

alternative to the present arrangements which would enable cost-effective support to be directed selectively to those students who are in real need of it during the long vacations.

The draft consultative paper has not been cleared at official level with other Departments, and if we decide to proceed with publication, more work will no doubt need to be done to it. At this stage, however, I invite your views on the general content of the paper and on the desirability of publication.

Although the draft paper is somewhat short on radical proposals (apart from a graduate tax), I consider on balance that we should go ahead with publication. We are committed to carrying out a thorough-going review of the student support system following our withdrawal last December of the proposal that parental contribution should extend into fees. Our supporters - as well as others - will be critical of any abandonment of the review at this late stage, and they are expecting a public debate. Moreover, two recent Green Papers - "Reform of Social Security" and "The Development of Higher Education into the 1990s" - make significant reference to the review and to the forthcoming public consultation.

If we are to conduct a public consultation I would like to be in a position to publish the paper as soon as possible after the Party Conference next month. I would hope that, as previously envisaged, the paper can be issued jointly in my and George Younger's names.

I am copying this letter to the Prime Minister, and also to Quintin Hailsham, George Younger, Nick Edwards, Norman Fowler, Norman Tebbit, Tom King, David Young and John Wakeham.

Yours ever.

Keith

Draft 13.9.85

REVIEW OF STUDENT SUPPORT - CONSULTATIVE PAPER

INTRODUCTION

1. The Secretary of State for Education and Science announced on 5 December 1984 the Government's intention to review arrangements for higher education students' financial support. The Government have already considered whether students or their relatives should (subject to means test) be liable to pay tuition fees, and whether loans should be introduced in place, or in partial replacement, of grants, and have concluded that neither of these changes should be made. They propose to consult widely on the basis of this paper about whether changes other than these should be made to the present support arrangements, concentrating on support at first degree and sub-degree levels. In doing so the aim is to meet the needs of students and their families more closely whilst safeguarding the interests of the taxpayer.

SECTION I

THE EXISTING AWARDS SYSTEM

2. The present arrangements for providing financial support for students undertaking higher education had their origins in the report of the Anderson Committee of 1960 (1).* Its principal recommendations were implemented in 1962 following the enactment of legislation which still underpins the system of student awards today. The main principles which the Committee advocated were: equality of opportunity of access to higher education; freedom of choice of institution and course (subject to an offer of admission); and availability of grants for the full period of any designated course. The Anderson report prepared the way for the expansion of higher education recommended in a report by the Robbins Committee in 1963 (2), and the adoption of the principle that "courses of higher education should be available for all those who are qualified by ability and attainment to pursue them and who wish to do so". These two reports set the scene for the great expansion in the number of students entering higher education which accelerated in the 1960s and which has continued to the present time.

*References are to be found on a separate sheet at the end.

3. The rise in student support costs that has accompanied the major changes in higher education over the last 20 years has been significant. The combination of demographic factors and increased opportunities to participate in higher education led to a threefold increase in the number of award-holders between 1962 and 1983/84. There has also been a threefold increase in the real level of public expenditure on student maintenance grants in the last 20 years. There are now about 450,000 award-holders, and public expenditure on their maintenance alone is expected to total some £530M in 1985/86 (3). There is in addition a much larger subsidy still which is given through the provision of free tuition, of which the aggregate cost is in excess of £1,500M per year, or about £3,500 per student a year. And even these figures exclude additional payments to students or their families through social benefits, which cost around £130M, and tax concessions amounting to about £70M accruing through the practice of parents providing income for their student children under deeds of covenant.

4. However, although our student support system is generous, it is not without its critics. While higher education changes have been extensive they have not been matched by structural changes to the student support system. The essential features of the present system (a detailed description of which is in Annex A) have remained the same since 1962, except that contributions from families to the payment of tuition fees ended in 1977. In particular, student support has been oriented almost exclusively towards a system of higher education which is based on full-time degree or equivalent study from the age of 18 (17 or 18 in Scotland). Although there has been some widening in the scope of courses which entitle students to an award, such as the extension to Higher National Diploma and DipHE courses in 1975, there are many advanced courses which do not at present carry an automatic entitlement to awards. More emphasis is also now being placed on continuing education and more flexible methods of study which are not always compatible with present grant provisions (4). If these developments are to be encouraged further the present awards system will need to be adapted.

5. A case for reviewing the awards system would exist on financial and educational considerations alone. But it is strengthened by social changes which have occurred since the 1960s. As long ago as 1960 the majority of the Anderson Committee recommended the abolition of the parental contribution - although this was not accepted by the Government of the day. Its retention has come under increasing criticism since then and the present requirement that students should be financially dependent on their parents until the age of 25 is unpopular, and argued to be particularly anomalous now that the age of adult responsibility has been reduced from 21 to 18.

6. Another important stimulus for change is the need for simpler ways of administering students' support. This applies particularly in the relationship between student awards and social benefits. Students are currently eligible to claim social benefits, especially in the long vacations which the mandatory award is not designed to cover. Student claims for supplementary benefit and housing benefit have risen sharply since the 1960s, and up to perhaps one half of all students are claiming these benefits during part of the year. The Government believe that in the long term it is right in principle, and in the interests of simpler administration, to remove students from the benefits system, and to make any necessary support available under the awards system. This will need to be considered further in the context of any changes in the arrangements for benefits arising out of the Green Paper "Reform of Social Security", and in the light of this review.

7. Simplification of the awards system itself is also desirable. The Government have already achieved this in the case of students' travel costs which in England and Wales and in Northern Ireland are now met through a flat rate addition to the grant rather than through reimbursement of hundreds of thousands of individual claims. Although these new arrangements will need time to settle down, they appear generally to be working well and offer encouragement for the identification of further areas where administratively simpler and more cost effective procedures can be implemented. The recent issue to LEAs in England and Wales of detailed "Notes for Guidance" on the mandatory awards regulations is also intended to make local administration easier.

8. Our membership of the European Community, and with it the impetus towards measures to promote the free movement of students as well as workers between member countries, raises other issues which bear examination. In 1980, Education Ministers in the Community agreed that there should be a broad balance in the movement of students across the various EC countries and that the home country, rather than the host country, should be responsible for any financial support for the students. That principle has been supported by the UK but is under review by the European Commission, in part because it means that there will be different support levels for EC students within a given member country. It would not be acceptable to provide other EC students attending UK institutions with grants at the same level as those provided for UK students since the level of support which would be provided for UK students attending institutions in other EC countries would be significantly less generous. The outcome of the Commission's review is not yet clear, but it will be important to ensure as far as possible that any new framework for student support in

the European Community does not impose unreasonable burdens on the United Kingdom. Equally, any changes to the awards system will need to reflect developments in the Community.

9. For all these reasons, the time is ripe to examine the arrangements for supporting students entering higher education in the light of higher education policy and recent developments, and taking account of what the country can afford.

SECTION II

THE FUNDING OF CHANGE TO THE SYSTEM

10. Most worthwhile changes are not possible unless more money can be found, whether from new sources or by redeploying existing resources. The escalating cost of awards over the last 20 years has made it difficult to maintain even the real value of the grant year by year. Radical changes to the awards system have hitherto been ruled out as too costly. For example, in England and Wales, extension of mandatory awards to all full-time advanced courses (including those students at present receiving discretionary awards) would represent an extra charge on public funds of about £10M per annum; reduction in the age of independence from 25 to 21 would cost £75M per annum; and the abolition of the parental contribution altogether would cost £280M per annum.

11. In considering what the sources of funding might be, the first question is whether or not the cost of higher education is already fairly distributed between the taxpayer on the one hand and the student (and his family) on the other. (The total costs to the public of student support are set out in paragraph 3 above.) Under the present system the overall direct contribution of students and their families towards the student's higher education is, on average, only some 10% of the total expenditure on maintenance and tuition costs (and, where no parental contribution is made, that contribution is nil). The other 90% is met by taxpayers, who in the generality of cases are likely to earn less throughout their lives than will the students whom they are supporting. Indeed the contribution of taxpayers to student support and free tuition of over £2,200M a year is distributed among only one person in seven in the 18 to 21 age group in England and Wales (one in five in Scotland).

12. Higher education should not therefore be regarded merely as an individual right, for those qualified to receive it; it is also an individual benefit

to be greatly prized. The individual stands to gain a great deal from higher education, both through the ability of most graduates to command higher than average earnings, particularly in later life, and also, more personally, through the opportunity to broaden horizons and through an added enrichment of life (5). It is of course true that students who later enjoy higher earnings will contribute towards their subsidised higher education by paying higher taxes than most people. However, when the same rates of tax apply to non-graduate higher earners, higher taxes cannot be said to recoup in any tangible way the benefits received by the graduate from his higher education.

13. Society as a whole and the national economy stand to benefit from the contribution that suitably qualified graduates make, and the Government believe that our higher education system has a vital contribution to make to the improvement of the country's economic performance (6). It is therefore reasonable that higher education should receive substantial public funding, and the Government will continue to use taxpayers' money to meet by far the greater share of its cost including the full cost of tuition (7). However, in view of the high contribution already made by taxpayers to the cost of higher education - much higher than in most countries in a similar position to ourselves - the Government do not believe that there is any scope for increasing the burden on them. The cost of any changes made to the awards system as a result of this review should therefore be met by savings resulting from adjustments within the system, by sponsorship by employers (not the general public), or increased contributions from the students themselves.

14. Some higher education students already make a financial contribution towards their maintenance costs by individual borrowing or through part-time vacation earnings. Two other ways in which students could be required to make a more substantial contribution have been examined by the Government. The first method would be through loans, whereby graduates would repay the money they had received for maintenance from the State over a fixed period. This approach has, however, been rejected, and the Government do not therefore propose to pursue a loans option. The other method would be by means of a graduate tax. In this way graduates would pay a sum related, not to what they had received, but to what they subsequently earned. This approach is considered in more detail in the following section.

SECTION III

POSSIBLE IMPROVEMENTS IN THE SYSTEM

15. As already stated the Government consider that improvements to the system of student support must be financed by redeploying resources within it; and they believe that there is useful scope for this. More could also be achieved if additional funds became available to students through sponsorship, private borrowing and part-time earnings. A graduate tax would also finance improvements but only in the longer term. The aims behind any changes should be to make student support arrangements more flexible, fair, simple and cost effective than at present. The following paragraphs indicate some areas in which improvements might be introduced.

Wider access

16. At present students have a right to an award only for degree courses, for DipHEs, for Higher National Diplomas and for courses specifically designated as comparable to degrees. No new courses have however been designated for mandatory awards purposes in England and Wales since 1981. The reasons for this have not been educational but to restrain public expenditure. The imposition of this moratorium is leading to increasing anomalies: for example those accountancy courses leading to a degree qualification all attract mandatory support, while other degree comparable courses do not. It is true that many of these non-designated courses confer so much benefit on the students taking them that mandatory public support is arguably unnecessary, and that many students on courses of this type do receive awards made by award-making bodies under their discretionary powers. But it is nevertheless for consideration whether there should be some new designations of courses for mandatory awards purposes. This might even extend to giving mandatory cover to all full-time advanced courses.

17. Under the present primary legislation in England and Wales awards can only be given (except in the case of certain teacher training courses) for full-time study on courses that can be taken full-time throughout. This constraint is increasingly at odds with recent developments in educational thinking which favour a "mixed mode" approach to learning whereby students would move

in and out of full-time and part-time study where appropriate. This pattern of study is becoming more common among maturer students with financial commitments requiring them to combine study with employment. An extension of mandatory awards to all part-time study would have to be ruled out on grounds of cost. But part-time study is economically a bargain for the country, and there is therefore a good case for encouraging people to gain their qualifications by this route. One possibility would be to support students during the full-time components of courses which include both part-time and full-time elements. Another would be to make some token contribution to the travel, books and equipment costs incurred by those undertaking degree or degree comparable courses on a part-time basis.

18. The current provisions limit mandatory support (with very few exceptions) to those who have not previously attended a full-time degree course or attained a degree through part-time study. They also impose restrictions on students' movement between courses. Again, these constraints do not fully reflect current trends in the labour market which may require people to re-orient their careers more than once during their working lives, nor do they take account of developments in the directions of distance learning and of study flexibly organised at a variety of institutions. Giving awards to students as of right according to their course of study, and irrespective of any qualification they may already have gained, might have the danger that it would encourage the "perpetual student". A radical approach would be a system of vouchers for support in higher education which could be cashed by any suitably qualified person at any time. But this could have significant costs both substantively and administratively. There are however more modest changes which would allow more flexibility than the current arrangements. Possibilities include: easing restrictions on inter-course transfers; making mandatory support available in the case of certain second first degrees (eg those in certain subjects, after a gap, or where students had received no previous Government support); and increasing support for certain mature students in order to encourage able and experienced people improve their qualifications for jobs likely to benefit the economy.

Family contributions

19. Although the parental contribution system has been the subject of much criticism, it does provide a means of relieving the taxpayer of part of the

cost of higher education. There are many ways in which the parental contribution burden could be reduced. The age of independence could be lowered from 25 to, say, 21. There could be reductions in the contributions to a third or a half of their present levels. Alternatively the contribution scale could be changed to make it even more progressive than it now is, following the changes the Government have made over the last 2 years. Most radical of all, the contribution scheme could be abolished altogether. Most of these changes would, however, be very expensive, as noted in Section II, and could therefore be introduced only in tandem with other major changes which switched the burden to students themselves, perhaps through large scale grant reductions.

20. A particular problem often cited about the parental contribution system is the failure by some parents to make up the contribution in full. At present award making-bodies inform students and their parents what the assessed contribution is, but it is left to the family to ensure that payment of the assessed sum is actually made. According to a 1982/83 NUS survey, nearly one half of those students who should receive a contribution did not - though in many cases by only a small shortfall - receive their contribution in full. (This was however a considerable improvement on the position 10 years earlier when the corresponding figure was three quarters.) One remedy would be to put the contribution system on to a compulsory basis, possibly using the tax system to collect contributions. In this way there could also be a saving in administrative costs. The Government would, however, be reluctant to introduce an element of compulsion into what is essentially a family matter in each case.

21. Apart from any more radical changes that might be made in the level, or method of collection, of parental contributions, the Government have been examining whether the basis of assessing parental contributions should itself be changed to make it more equitable. At present the parental contribution is based on the "residual income" of the parent. This is calculated by taking the gross income and deducting certain allowances reflecting those allowed under the tax system. Chief among these allowances are mortgage interest, pension contributions and life insurance premiums. It has been argued that this system gives an unfair advantage to certain groups. For example, those with mortgages benefit twice - both under the tax system and also under the parental contribution system; those paying rent however receive no allowance

under either system. The residual income system is also administratively complex because of the relationship of its rules to the provisions of the tax system. A system based on gross income would be independent of the system of tax allowances and would place those families with mortgages on the same basis as those who pay rent. It should also make possible a considerable simplification of the awards regulations and greatly reduce the administrative work of award-making bodies in awards assessment. A switch to gross income assessment would disadvantage those who currently benefit most from the present system. It would therefore be desirable to allow a long lead-in period so that parents had time to accommodate their practical arrangements with the new system.

22. When students are married and independent (ie over 25 or financially self supporting for 3 years) their spouses are expected, if their incomes are high enough, to make a contribution towards their maintenance. The spouses contribution scale is not however the same as that for parents and the contributions expected from spouses are therefore sometimes higher and sometimes lower than those required of parents on the same incomes. There is a good case for bringing the two scales into line. Any changes made to the parental contribution system would of course have implications for the contributions made by spouses of independent students.

State benefits

23. The Government believe that it is right in principle to remove students from entitlement to state benefits throughout the whole year (8). One of the criteria to be applied in considering changes to student support will be the extent to which they are compatible with this aim. At the same time, this objective cannot be achieved until suitable arrangements have been devised to provide appropriate assistance for those in need during the long vacations - for which the awards system does not at present provide support. One possible approach is for award-making bodies to administer a hardship scheme for students in need during this period. But it is not apparent that this arrangement would be more cost effective and efficient than the existing system of social benefits administered by DHSS.

24. There is also a case, on administrative grounds and in line with the Government's policy to remove students in general from access to state benefits,

for rationalising the several different systems of support for students' dependants. At present independent students receive means tested support for their dependants as part of their award if they were married before their course began. Other students, however, can receive support only in circumstances of hardship through separate arrangements administered by a DHSS unit on behalf of the Education Departments. In certain circumstances, some dependants also qualify to be supported under normal DHSS rules. Justification for these separate avenues of support for what is essentially the same group has traditionally been based on the principle that the awards arrangements should not encourage students to acquire dependants while on their course. However, this principle now needs to be reviewed in the light of present day conditions and in order that a simpler and fairer scheme can be brought into operation. The most straightforward approach would probably be for all students with dependants to be supported exclusively under the awards system.

Simplification of allowances

25. A more streamlined student support system would result if some of the smaller, less cost effective, allowances were removed. One possible example of such an allowance is the special equipment grant, paid to medical students and others who require special equipment which the normal provision in the grant does not cover. However, the case for this special grant is weakened by the consideration that the equipment provided will often be of use after graduation, and that its administration is disproportionately expensive.

Standardised provision

26. In general grant rates are set at a level to meet students' needs on an average basis, and there is no attempt to reflect each individual's circumstances. However, the amount of support students can receive varies enormously according to their own or their families' means and to whether a student lives in the parental home or is studying away from home in London or elsewhere. The length of time for which the grant is payable, and hence the total amount given to an individual, also varies because grants are at present paid for the full length of each course and this can range from 2 to 7 years. A simpler and more cost effective approach would be to introduce more standardised provision both in terms of the amount payable in any one year and of the

period of time for which support was available. A corollary is that extra needs in any year, or for any course, would have to be met either by the student and his family, or by sponsorship. It would also encourage students to think more carefully about their choice of subject and subsequent employability. These issues are discussed in more detail below.

27. In contrast with most other countries, nearly 90% of students from England and Wales study away from home at an estimated additional cost of £80m; in Scotland some 60% leave home to study with an extra cost of nearly £15m. The Government believe that on economic grounds more students ought to be encouraged to study from home. One way of achieving this is to base the level of the grant or other support available on the present home rate. However, extra provision would need to be made in certain cases, for example, where students' homes are not within daily travelling distance of any HE institutions. Measures would also need to be taken in order to avoid placing undue restrictions on students' reasonable choice of subject and to avoid encouraging them to rely more heavily on state benefits (as long as they are available). And since few mature students live with their parents, this group should continue to receive grants at their present levels.

28. Another measure of standardisation could be in the matter of the length of courses for which mandatory awards are available. The Government are concerned at the extra costs of first degree courses which last longer than 3 years (4 years in Scotland) (9). It should be possible to set the period for which mandatory support is available to a fixed number of years rather than to a set (first degree) level. The period could be fixed at 3 years (4 in Scotland) or, more radically still, a year less than this in each case. This approach would be consistent with the belief that more of the cost of student support should be borne by the students themselves and their families, or by sponsors, particularly in the case of study leading to such well-paid professions as accountancy. Any limit on the maintenance available would not affect the generous subsidy in the costs of tuition which all home students receive.

29. Another alternative is for maintenance to be limited to courses with a general educational content. This would not preclude a vocational orientation to higher education, but it would require those wishing to receive professional training, in clinical medicine for example, to look elsewhere for support

- as some intending lawyers and accountants already do. A change of this kind would also help to clarify the courses for which some EC nationals and their children studying in this country would be entitled to support from UK funds. However, any approach on these lines would presuppose that the vocational and general educational elements of courses could be separately identified and the courses appropriately structured.

Graduate tax

30. A more radical reform, to which reference has already been made, is the introduction of a graduate tax in order to achieve a fairer distribution of the cost of the maintenance ingredient in higher education. In recognition of the benefit which students derive from the opportunity to undertake higher education, a tax would be levied on graduates' subsequent earnings. The tax period and rates could be balanced in a variety of ways, but would be structured to earnings to ensure that those with low or no earnings paid less than the better off, or nothing at all. The main advantages of this approach would lie in equity, since payment for maintenance during higher education would be determined by future success, and could lead after a period to the reduction and in due course removal of the dependence on parents. If full integration into the tax system could be achieved, it would be easy to secure repayments and to keep default rates to a minimum. There would, however, still be some scope for avoidance and evasion of the graduate tax - for example by artifically depressed earnings or through emigration. It is uncertain what the psychological impact on the will to succeed of an earnings related tax would be, but some of the same disincentive must reside in any progressive tax system.

Meeting the cost

31. Estimates of the public expenditure effects of the changes outlined above are set out in Annex B and some illustrative calculations for a graduate tax are given in Annex C. As explained in Section II, the Government are concerned that these should broadly be balanced or that any deficit should be made up by sponsorships or by students' earnings or private borrowing. It is envisaged that sponsors would normally be prospective employers and would include the Government in some cases. Consideration should be given

to the possibility of tax concessions to attract certain types of sponsorship, for example in areas of study which the Government wished to foster. However, care would be needed to ensure that the Government did not give away in tax concessions more than the cost of the grants that were being replaced by sponsorships.

SECTION IV

CONCLUSIONS

32. This paper has argued that there is a need to make certain changes to the existing system of student support but that these changes should not increase the financial burden on the taxpayer. The improvements suggested include some that would normally fall to be considered in the Department's annual review of the awards system and others which could not be contemplated without the much fuller consultations made possible by this review. The Government would welcome a wide public debate on the ideas put forward, and invite comments to be submitted to the Department of Education and Science (Room) or to the Scottish Education Department (Room) or to the Department of Education for Northern Ireland (Room) by ....

REFERENCES

(1) "Grants to Students" (Cmnd 1051).

(2) "Higher Education Report" (Cmnd 2154).

(3) All figures are for GB, unless otherwise stated.

(4) "The Development of Higher Education into the 1990s" sections 4 and 6 (Cmnd 9524) [the HE Green Paper].

(5) A discussion of "rates of return" to higher education is in "The Development of Higher Education into the 1990s", Annex B para 12.

(6) "The Development of Higher Education into the 1990s", para 1.2.

(7) "The Development of Higher Education into the 1990s" recommends that consideration be given to subsuming fees into the general funding of institutions (para 3.9). How this might be done has still to be considered.

(8) "Reform of Social Security" (Cmnd 9517) [the DHSS Green Paper].

(9) "The Development of Higher Education into the 1990s", para 6.8.

ANNEX A

STUDENT AWARDS

1. Under present arrangements students on advanced courses who have been ordinarily resident in the UK for the three years before their course are eligible for mandatory awards. In England and Wales these awards are administered by local education authorities and in Scotland by the Scottish Education Department. Although the Scottish arrangements cover a slightly larger number of courses, and deal differently with students' travel costs, it has been the policy of successive Governments to maintain parity of treatment for students on both sides of the border so far as main rates of grant and parental contribution scales are concerned.

England and Wales

2. Mandatory awards are made to students on designated courses of advanced further education. These are full-time degree or degree comparable courses: DipHE courses, HND courses run by BTEC, and courses of initial teacher training. Awards for other courses - other than for certain postgraduate study - are discretionary: each individual award-making body decides the number of such awards it can make and the rates and conditions of grant and bears the full cost itself. The remainder of this note will concern mandatory awards.

3. A student has a right to an award for only one attempt at a basic advanced qualification and so those who have undertaken previous advanced study (irrespective of whether an award was received for that study or not) are rendered ineligible. Students must also satisfy certain residence conditions to be eligible for support.

4. The award covers a student's maintenance, including a flat-rate sum for travel, and fees. For those resident in the parental home the basic maintenance grant is £1480.* For those living outside of the parental home it is £2165 for those in London, and £1830 for those elsewhere. Those receiving free board and loding are entitled to a grant of £780. The grant is assumed to cover the Christmas and Easter vacations and 30 weeks of term-time. In addition to the basic maintenance grant, the student may also be eligible for additional maintenance. The main supplementary allowances are for extra weeks of study and for dependants.

5. The cost of maintenance is shared between the State, students and their families. Students aged 25 or over, or who have supported themselves for 3 years before the start of their course are regarded as independent of their parents for awards purposes. A parental contribution is assessed for all other mandatory award holders.

6. The parental contribution is based upon the parents' residual income: the income of both parents is taken into account in its calculation. Residual income is defined as the parents' gross (taxable) income in the preceding financial year less certain deductions including those for other dependants, interest payments (including mortgage interests), superannuation, life insurance and pension scheme contributions. After residual income has been calculated, and parental contribution assessed, a further deduction is made in respect of any other dependent children of the family: £240 if the child is an award holder, or £85 otherwise.

7. A nil parental contribution is asssessed where parents' residual income is less than £8100. At £8100 a contribution of £20 is assessed; contributions

are then assessed at the rate of £1 for each £7 of additional income to a residual income of £10,300, then £1 for every £5 to a residual income of £15,000, and £1 for every £4 thereafter subject to a maximum contribution of £4000.

8. For the spouses of independent students the contribution is again based on residual income. No contribution is assessed on incomes below £6300. At £6300 a contribution of £10 is assessed; contributions are then assessed at £1 in £5 to a residual income of £10,200, and beyond that at the rate of £1 in every £10.

9. The student's contribution is not based on residual income. On incomes (net of tax, national insurance, child benefit and earnings) beyond £425 the student is assessed to contribute pound for pound towards his grant. However, scholarship income to a limit of £1280 (or £1600 in the case of an Industrial Scholarship) is disregarded.

10. The maximum contribution towards the grant from whichever source(s) is limited to the maintenance element of the award. Fees are met in full by the State, and are not subject to parental or other contributions. They are paid direct to the college by the award-making body.

11. In addition to the main rate of grant, there are a number of supplementary allowances which certain students - for example those who are over 26, or who are disabled, or who have dependants - are eligible to receive. The main awards regulations provide for the dependants only of students defined as "independent" (ie those who are over 25 or who have support themselves for three years) and married before the start of their courses. (Dependants of other students are supported under a hardship scheme administered by DHSS on behalf of DES under regulations made specifically for the purpose.)

Scotland

12. For students who are ordinarily resident in Scotland, Students' Allowances are paid at the discretion of the Secretary of State. The range of courses for which students' allowances are offered by the Scottish Education Department is wider than that covered by the mandatory scheme in England and Wales, but it includes all courses which are designated by the Department of Education and Science for mandatory award purposes, and conditions of eligibility for entitlements are similar. SED also offers students' allowances for courses in social work, professions supplementary to medicine, adult education and certain other courses for which in England and Wales support is offered on a discretionary basis by local education authorities or other award-making bodies. Limited numbers of postgraduate students' allowances are also available from the Department.

13. A significant recent difference in the Scottish arrangements is that main rates of maintenance grant are slightly lower than in England and Wales, but students may claim repayment of essential travelling expenses in excess of £50 per annum. For those living in the parental home the grant is £1365; the grant for students living elsewhere (outside London) is £1775 and for those at an educational establishment in London £2110. The features of the mandatory awards scheme in England and Wales which are described in paragraphs 2 to 11 above apply equally to the SED Students' Allowances Scheme.

*Footnote: All rates quoted are for the 1985-86 academic year.

ANNEX B

POSSIBLE CHANGES TO THE SYSTEM
PUBLIC EXPENDITURE EFFECTS £M (1985-6 PRICES) ENGLAND AND WALES

		STEADY STATE COSTS (p.a.) £ million	
1.	Extending the list of courses designated as degree comparable to include (paragraph 16)		
	- all full-time advanced courses	+10	
	- all full-time degree comparable courses which since 1982 have applied for, but not been granted, designated status	+0.5	
2.	Extending mandatory cover to a one year full-time element of all "mixed mode" advanced courses (paragraph 17)	+ 5	(1)
3.	Making token mandatory support available to all part-time students on degree or comparable courses towards the cost of fees, travel, books and equipment (paragraph 17)	+50	(1)(2)
4.	Extending mandatory cover to those taking a second first degree or comparable qualification, 10 years having elapsed since previous study (paragraph 18)		
	- provided no award received for first qualification	+2.5	(1)
	- provided second qualification taken in a scientific or technological subject	+10	(1)
	- provided no qualification received originally	+ 5	(1)
5.	In the case of inter-course transfers, extending mandatory cover to the full period of the degree (or comparable) course transferred to (paragraph 18)		
	- provided the course is in a scientific or technological subject	+10	(1)
6.	Increasing grant rates by £500 for mature students taking scientific or technological subjects (paragraph 18)	+ 2	

		£ million p.a.	
7.	Extending mandatory cover by means of a voucher scheme whereby each student received a fixed number of years' grant to study at the institution of his choice (paragraph 18)		
	- 3 year voucher	-40	(2)
	- 4 year voucher	+10	(2)
	- 4 year voucher with extra help for medics and others on long courses	+20	(2)
8.	Abolishing/halving parental contribution (paragraph 19)	+280/+140	(3)
9.	Lowering the age of independence from 25 to 21 (paragraph 19)	+75	
10.	Making the parental contribution scale more equitable (paragraph 19) - for example		
	- £1 in 4 throughout, threshold as now	-45	
	- £1 in 4 throughout, threshold £1200 higher	Nil	
11.	Making parental contribution payments compulsory (paragraph 20)	Nil	
12.	Changing the assessment of parental contributions from residual to gross income (paragraph 21)	Nil	(3)
13.	Making the spouse's contribution scale the same as that for parents (paragraph 22)	+ 1	
14.	Removing students from benefits (paragraph 23)	Nil	
15.	Treating all students' dependants in the same way and under the same system (paragraph 24)	Nil	(3)
16.	Abolishing the special equipment grant (paragraph 25)	- 1	(3)
17.	Abolishing the "home" and "elsewhere" differential (paragraph 27)		
	- for all except 10% of students	-70	
	- for all except 20% of students	-60	
18.	Limiting the period of mandatory support (paragraph 28)		
	- to 3 years (4 in Scotland)	-50	(2)
	- to 2 years (3 in Scotland)	-250	(2)

		£ million p.a.	
19.	Limiting mandatory cover to non-vocational courses (paragraph 29)	-150	(2)
20.	A higher education tax (paragraph 30)	[See Annex C]	

Notes

(1) These costs assume an increase in HE places. If there is no increase in award holders overall, and no increase in HE places, the cost of these changes will be nil. On the other hand, greater HE numbers would lead not only to the awards cost shown here but to even higher institutional costs, especially in the scientific and technological subjects.

(2) Costing is very imprecise and conceals a wide range of uncertainty.

(3) Some administrative savings are likely.

ANNEX C

GRADUATE TAX

PUBLIC EXPENDITURE EFFECTS (1985/86 PRICES) ENGLAND AND WALES

Gross Income threshold for tax	Annual yield (£M) per 1p in the pound Years after first crop of graduates liable 5	10	20	30	40 (steady state)
£12,000 pa	0.0	3.5	23.1	64.7	97.9
£ 9,000 pa	0.7	8.5	43.6	105.7	157.3
£ 6,000 pa	4.9	21.8	78.6	165.4	239.4

NOTES

(1) Higher rates than 1p in the pound would produce higher annual yields on a pro rata basis. These savings could be used to finance the cost of improvements shown in Annex B. For example, a tax threshold of £9,000 pa (= current average earnings) and a rate of 1.8p in the pound would produce the £280M pa needed to phase out parental contributions completely over 40 years.

(2) Calculations assume a steady flow of 110,000 England and Wales graduates per annum liable for the tax immediately after graduation.

(3) Thresholds are for gross earnings: taxable income could be at least £2,200 pa lower depending on circumstances.

(4) Earnings distribution is based on the latest General Household Survey figures (1982) for those working and having first degree, teaching, or other higher education qualifications.

Ref. A085/1881

PRIME MINISTER

Review of Student Support
(C(85) 16)

BACKGROUND

The Secretary of State for Education and Science announced on 24 January that he and the Secretary of State for Scotland, in association with the Secretary of State for Northern Ireland, would issue a consultative paper examining financial support for students in higher education. He has since given undertakings to the House that the document would appear before the Summer

Flag A

Recess. A draft Green Paper is attached to C(85) 16; it has been produced in consultation with the Treasury, Scottish, Welsh and Northern Ireland Offices, the Departments of Employment and Health and Social Security and the Minister without Portfolio. It is not, however, an agreed draft.

MAIN ISSUES

2. The main issues are:

i. What is the primary objective of a new system? Is it to improve the "fairness" of funding student support or to release resources either for other public expenditure or to reduce public expenditure? If the latter, how far should the possible use of such resources (to reduce the parental contribution or for use in other areas of higher education) be trailed in the Green Paper?

ii. Is the balance of the Green Paper correct? Although ostensibly about student support generally, it concentrates on the loan option and only mentions other aspects briefly and without seriously discussing them.

iii. Should the terms of a loan scheme be spelt out in detail? If so, are those proposed acceptable and should they be the only example given?

iv. Timing. The proposal is to issue the Green Paper before the Summer Adjournment and ask for comments by November. Further proposals would then be put to Cabinet in the New Year. Is this too early in view of the current state of the proposals and the possibility that legislation would not be required before the next General Election?

Objective of Reform

3. It is not clear what the underlying purpose of reform is. Different passages of the Green Paper imply that the concern is with "fairness" (that is, the unfairness of the general taxpayer having to fund what is a benefit to only a relatively small portion of the community), and with releasing resources for other purposes. But the implication of "fairness", which is that savings should be used to reduce the burden on the general taxpayer, sits ill with the suggestions in the paper that savings would in fact be used to reduce the parental contribution, to extend mandatory support to other groups in higher education, or be spent on other improvements in higher education. If the intention is to reduce public expenditure overall, then it would be best to make this clear. Otherwise the alternatives mentioned will be hostages to fortune and the pressure to make further concessions (eg in the terms of the loan or to the parental contribution) as the proposals are carried forward may remove all scope for savings. As it is savings (assuming 100 per cent take up) do not accrue until

after Year 10 (see Annex D). They are then estimated as rising to £200 million plus (on the central estimate for inflation) by Year 30. Without the proposed change in the parental contribution savings would accrue earlier and be greater.

4. There will no doubt be criticism of the proposals from those who think they will lose ie prospective students. Most people are likely to be fairly neutral, unless it is made clear to the general taxpayer that he is likely to gain in the foreseeable future. If reduction in the parental contribution is part of the package, some parents at least may favour the proposals.

Balance

5. The Green Paper purports to be a basic examination of the current system of student support and possible alternatives. But the bulk of the text deals with the precise proposals for a loan scheme. There is no serious examination of certain major themes which are touched upon in the introductory passages ie that it is wrong for students to be financially dependent upon their parents until the age of 25; the effects of removing students from the social benefit system; and the possible harmonisation of student support within the European Community. There is a brief discussion of the possibility of altering the basis for parental contributions, for encouraging students to study close to home, for some form of safety net for the long vacations (for which the award system does not provide support), for support for students' dependants and for the possibility of a Higher Education tax. But none of these ideas is discussed at length and there could be criticism that they are so lightly touched on.

6. The reference to the Higher Education tax (paragraph 16) in particular could be a hostage to fortune and is likely to be opposed strongly by the Chancellor of the Exchequer. The

section on possible changes to the existing system also mentions (paragraph 13) the possibility of limiting student support to courses with a general educational content ie excluding the vocational element of courses such as medicine and architecture. That element of those courses might be financed in some other way eg by potential employers. However this is an issue which is not primarily related to the method of student support and to suggest in the Green Paper that the Government should remove support from vocational education runs contrary to other initiatives which the Government is taking to make higher education more relevant to the immediate needs of the economy.

7. The Green Paper sets out in some detail the terms of a loan scheme, involving interest-free loans repayable over 15 years after a two-year period of grace following completion of the course. Repayments would be reduced in years when income fell below average earnings on a sliding scale such that, at 85 per cent of average earnings, repayments would be deferred. Outstanding debts would be revalued annually in line with inflation, subject to a ceiling of 5 per cent. As part of the package Sir Keith Joseph proposes also that parental contributions should be reduced progressively by one third from present levels over the first ten years of the scheme - a proposal the Chancellor of the Exchequer is likely to challenge. Annex B (which it is intended to publish) shows repayment schedules for differing lengths of course and size of parental contribution. Annexes C and D (which it is not proposed to publish) show the impact of the repayment proposals on graduates over a range of incomes and the public expenditure effects. Whatever is said, the detailed presentation of one scheme will appear to commit the Government pretty firmly to this particular option. It would certainly be difficult subsequently to settle on anything less generous. It might be better to avoid such an apparent commitment by presenting at least one alternative form of loan system in equal detail and by ensuring that the "Green" nature of the proposals is more strongly emphasised.

8. Paragraph 25 dealing with the financing and administration of the loan scheme states that the scheme would need to be publicly funded. It is not clear what soundings lie behind this statement, but it is possible that the banks might be interested if guarantees and suitable terms were available and unnecessary to rule this possibility out so explicitly in the Green Paper.

Timing

9. Sir Keith hopes to publish the Green Paper in July; to take comments until November and bring proposals to colleagues early next year. He is, however, not sure when he would want to legislate to implement any required changes and it is for discussion whether legislation before the next General Election would be appropriate. If it is clear that legislation in 1986-87 would not be suitable, there is a case for not pressing ahead at top speed now. It has been argued that publication in the summer would be preferable to publication in early autumn, when the universities have just resumed, but a longer delay would minimise the effect. On the other hand, Sir Keith may feel that he is so committed to publication in July that it cannot possibly be avoided.

HANDLING

10. You will wish to invite the Secretary of State for Education and Science to introduce his memorandum. You may then wish to suggest that discussion should be in three parts: the objectives and balance of the Green Paper; the particular loan scheme put forward; and the timing of future action. Any relatively detailed points on the draft should be sent to the Secretary of State for Education and Science separately.

11. On questions of principle, you may wish to invite the Chancellor of the Exchequer to open the discussion followed by

the Minister without Portfolio and the Secretaries of State for Scotland and Wales. The Lord Chancellor also holds strong views.

12. On detailed points, the Chief Secretary, Treasury may have additional views and the Secretary of State for Social Services may wish to speak about the effect of removing students from social benefits, although this seems better dealt with in the social security context. The Minister without Portfolio may also wish to speak on the interaction between student loans and training loans.

13. On timing, the Lord President may wish to open the discussion and the Lord Privy Seal and the Chief Whip will have views.

CONCLUSION

14. You will wish Cabinet to reach conclusions on:

i. Whether proposals for student loans should be published and on how "Green" a basis.

ii. Whether the Green Paper should deal more fully with other aspects of student support eg the parental contribution, the withdrawal of social security support; and whether other loan schemes should also be exemplified.

iii. Whether the Green Paper should also commit the Government to reduction in the parental contribution or pre-empt savings by promising increases in expenditure on higher education.

iv. The timing of the publication of the Green Paper and any subsequent action.

Rosalind Munro

for ROBERT ARMSTRONG
(agreed by Sir Robert Armstrong and signed in his absence)

10 July 1985

BRIAAM

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CONFIDENTIAL

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
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FROM THE SECRETARY OF STATE

Miss M O'Mara
Private Secretary to
The Chancellor of the Exchequer
Treasury
Parliament Street
London SW1

10 July 1985

Dear Margaret,

STUDENT SUPPORT REVIEW

You phoned me early in the week with some amendments that the Chancellor has suggested to the draft consultative paper, Review of Student Support, which is to be considered by Cabinet tomorrow. The Secretary of State is reflecting on some of the amendments, but has asked that the proposed changes should be circulated for others to see. I attach accordingly a list showing what we understand to be the principal changes that the Chancellor would like incorporated.

I am copying this to private secretaries of all Cabinet members and to Richard Hatfield.

Yours sincerely,

Rob

R L SMITH
Private Secretary

CHANCELLOR OF THE EXCHEQUER'S SUGGESTED AMENDMENTS

1. Pg 1, Para 1, line 7-8 suggested redraft:

   "...levels, while accepting that tuition fees should continue, as now, to be met in full by the State."

2. Pg 3, Para 6, line 7-8

   Delete last sentence, "Moreover,.... year by year."

3. Pg 3, Para 8, line 3-7

   Delete sentence beginning "As our existing..... make harmonisation easier."

   Continue "The fact that loans are....."

4. Pg 5, Para 12, line 4

   Insert "fair" after "But it does provide a"

5. Pg 7, Para 16.

   Suggest deletion of this paragraph.

6. Pg 8, Para 18, line 6

   Insert "and reform" after "The level and timing of savings".

7. Pg 13, Para 3, line 8

   Delete "and go a long way to increasing students' independence".

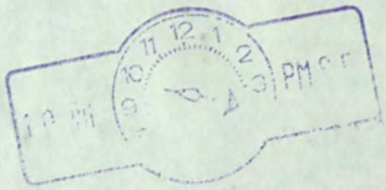
8. Pg 13, Para 31, line 8

   Suggested redraft:

   "The loan schemes illustrated here could,...."

   line 10.

   Suggest delete from "but only at the expense of "to the end of the paragraph and insert in its place "-if the parental contribution were to be maintained at its present level".


11 12 1
10 2
9 3
PM

10 DOWNING STREET

Prime Minister.

You will remember that, at your meeting with Sir Keith, you asked that the draft Green Paper should stress that tuition would remain free, and should quote the amount made available by the taxpayer for tuition on different sorts of courses. The latest draft (at pencil) mentions the point about fees, but hardly brings it out clearly.

The Policy Unit did not wish to add to the advice they have already offered you on this. The reason is that they are divided. Oliver thinks loans are right, and can be "sold" to the public; John Redwood thinks that presenting the idea effectively is nigh on impossible. I attach at Flag B Oliver's note of 21 June, which gives a useful summary of the main content of the draft.

DES have sidelined the points where this latest draft differs from the earlier version you saw.

Mark Addison
10/7

CONFIDENTIAL

ccQL

HOUSE OF LORDS,
SW1A 0PW

~~1. AP~~
2. for Cabinet folder.

8 July 1985

Dear Keith:

Review of Student Support

In recent weeks I have seen copies of your letter of 20th June to Nigel Lawson with the attached draft Consultative Paper; of the note of the Ministerial meeting held on Thursday 27th June; and of the Prime Minister's Private Secretary's letter of 2nd July, making it clear that she would like to see the Consultation Paper revised with the aim of publication in the latter part of this month.

I have already, in my letter to you of 2nd January, while re-affirming my belief in the need for strict financial control, made plain my objections to student loans. They are unlikely to assist our finances, certainly in the short term; it is in my view wrong that young graduates should begin their adult lives some hundreds, or even thousands, of pounds in debt; and finally I believe such a scheme to be a political liability at the polls. I also doubt whether recovery will be easy.

The purpose of this letter is not however simply to repeat these views. I should not like you and my other colleagues to embark on a scheme of this nature without very clearly understanding the likely resource implications which such a scheme would have for the legal system.

/...

The Right Honourable
Sir Keith Joseph, Bt, MP
Secretary of State for
Education and Science

CONFIDENTIAL

I am copying this letter to the Prime Minister, Willie Whitelaw, Nigel Lawson, George Younger, Nicholas Edwards, Patrick Jenkin, John Biffen, Norman Fowler, Norman Tebbit, Tom King, Douglas Hurd, David Young, John Wakeham and Sir Robert Armstrong.

yrs:

From: THE RT. HON. LORD HAILSHAM
OF ST. MARYLEBONE, CH, FRS, DCL.

In paragraph 28 of the draft Consultative Paper - I refer to the draft of 20th June 1985 - it is stated that the number of students qualifying for support in England and Wales is likely to be around 380,000. But in paragraph 24, on the basis of comparisons with foreign countries, it is estimated that the "wilful or negligent minority of defaulters" may reasonably be assumed to average 10%. Whether this country is likely to have more or less defaulters than others I do not know; clearly a concerted campaign among former students not to repay their debts might well result in a figure of more than 10%. But even 10% means that there would, at any one time, be some 38,000 defaulters.

The Consultative Paper assumes that a large but unquantified majority of these loans could be recovered through the Inland Revenue. Even assuming this to be the case, this would surely leave several thousand defaulters who could be pursued only through the courts.

I acknowledge that, where the former student could be traced and served, the majority of these would be simple debt cases and so unlikely to occupy much judicial time. I acknowledge too that only a very small proportion of these cases would qualify for legal aid. But even a small proportion of a large though unquantifiable number would result in a considerable additional burden on the legal aid fund which it is not in any position to accept unless additional resources are made available; and the same of course is true of the court service itself. I hope therefore that if we do decide to go ahead with a scheme for student loans, it will only be on the understanding that the necessary additional resources will be provided for both the courts and the legal aid fund.

/...

EDUCATION: Student loans: Mar 81

10 DOWNING STREET

Mark,

lar. No. Not forever. MEA 4/7

We had this file on BF to check on progress on the draft consultative paper. From the meeting record, and after speaking to DES it seems that you are dealing with this directly.

Do we need to take any more action on this subject.

DP

4/7/85.

bf 4.7.85

See ~~MEA to~~ FERB 25/6
and. FERB to DES 2/7.

To check when document
is due to arrive.

4/7 DES state that
they are dealing with MEA
directly on the subject of
Student Loans. The draft
will be considered at an
H. Meeting or in full cabinet.

Subject
cc master

BM

file

10 DOWNING STREET

From the Principal Private Secretary

2 July 1985

REVIEW OF STUDENT SUPPORT

The Prime Minister had a meeting with your Secretary of State this evening about the preparation of the draft consultative paper on student support.

The Prime Minister said that, before publishing the consultative paper, it should be considered whether it was likely to prove practicable in the event to introduce student loans. If it would not, the publication of a green paper floating the idea could subsequently lead to suggestions that the Government had been forced to retreat, similar to the previous charges over the parental contribution. Such a situation would be better avoided.

Your Secretary of State said that the document now being prepared was "very green". The scheme outlined would contain a number of safeguards, like exemption from repayment for the first two years and whenever the student's income fell below the average wage, with the loan written off after a period; and capping of the parental contribution. There would also be some attractions, for example use of part of the saving in public expenditure to ease the parental contribution. While it was not practicable to have a national scheme of scholarships or bursaries, sponsorship would be encouraged. He had pledged to publish the consultative document originally in January and now before the summer recess: it would be much better published in the latter part of this month than in the autumn when the universities would have just reassembled. The episode over student grants in the previous autumn had made the opinions of many in the Conservative Party more sympathetic towards student loans and a useful saving in public expenditure would build up. In reply to a question from the Prime Minister, your Secretary of State confirmed that all tuition would continue to be free and loans would therefore only apply to students' living expenses.

Summing up the discussion, the Prime Minister said that the consultative document should stress the point that tuition would remain free and quote the amount made

BM

available by the taxpayer for tuition on different sorts of courses. She agreed that work should continue with the aim of publication in the latter part of this month, and would look forward to seeing the further draft of the document which was now being prepared.

I am copying this letter to Joan MacNaughton (Lord President's Office), Richard Stoate (Lord Chancellor's Office), Rachel Lomax (HM Treasury), John Graham (Scottish Office), Colin Williams (Welsh Office), John Ballard (Department of the Environment), David Morris (Lord Privy Seal's Office), Steve Godber (Department of Health and Social Security), John Mogg (Department of Trade and Industry), David Normington (Department of Employment), Jim Daniell (Northern Ireland Office), Leigh Lewis (Office of the Minister without Portfolio), Murdo Maclean (Chief Whip's Office) and Sir Robert Armstrong.

Miss Elizabeth Hodkinson,
Department of Education and Science

PRIME MINISTER

You are meeting Sir Keith Joseph at 1830 tomorrow to discuss students support. Background papers on this, which you have already seen, are attached. After tomorrow's meeting it will no doubt be necessary to arrange a wider one under your chairmanship, and we have pencilled a slot in your diary for 11 July.

Mark Addison

Mark Addison

1 July 1985

Prime Minister

You may also like to take the opportunity of discussing with Sir Keith the attached minute about the number of DES Ministers. That may lead you into a discussion about Sir Keith's wishes about his own future.

FERB 1.7.

PRIME MINISTER

STUDENT SUPPORT

We have arranged a half hour slot in the diary on Tuesday at 1830 for you to discuss student support with Sir Keith. He said he only needed 10 minutes, but the diary is clear for longer than that.

At Flag A is a note of Thursday's meeting, when the Ministers present opted to go for early publication of the consultative document on student support. On Tuesday, Sir Keith will try to persuade you that is the right course. He will in particular argue that publication was originally promised for the New Year. He has more recently committed himself in the House to publishing before the end of July. Early publication will be easier to handle politically because the students will be off campus. He may also stress that the Ministers at the meeting were unanimously in favour of putting the document out in July.

Policy Unit advice is at Flag B. They have concluded that publication should be delayed until the Autumn, to ensure that all the Ministers concerned are content with the draft, which is proving more difficult to get right than had been expected.

most recent draft at Flag C under cover of earlier Policy Unit advice.

Mark Addison

MARK ADDISON

28 June 1985

PRIME MINISTER 28 June 1985

STUDENT SUPPORT

At the end of the student grants debacle, the Government promised to publish a draft consultative paper on student support. Publication was originally scheduled for early 1985.

MPs and others have already noted the delay, and Keith Joseph has stated in the House that he hopes to publish before the end of July.

As you know, Ministers from the rel~~ative~~ evant Departments have been meeting to discuss the nature of the document. They at present envisage that loans will be included as an option, but without any commitment on the Government's part. The details of the draft are yet to be settled, but it now seems likely that any loans would include considerable safeguards for those students who had below average earnings in later life, and would phase out the parental contribution gradually.

It was clear at the meetings that the Chancellor, the Chief Secretary, David Young and Keith Joseph all firmly supported the inclusion of the loans option. Nick Edwards, Douglas Hurd, Tony Newton, and Peter Morrison seemed to approve it, but were not so committed. Only George Younger expressed serious reservations.

On timing, all the Ministers present were unanimous that the paper should be published as soon as possible. It was agreed that July - when students would be off the campus - was a much easier date politically than September or October, when the students would be re-assembling. But the Deputy Chief Whip dissented, on the grounds that publication in July would cause trouble in the House.

What Next?

Despite the conclusions of the meeting and Keith's promise we do not see any insuperable objection to publishing the report in the autumn. No doubt, the NUS and other student bodies will find it a little easier to cause trouble once people are back on campus; but this disadvantage is likely to be offset by improvements in the consultative paper due to a more leisurely period of consideration. And the House is well used to Ministers producing documents later than promised.

Since the issue is extremely delicate and contentious, it is important to ensure that all members of the Cabinet, including those who have no departmental responsibility in this area, are content with the consultative paper. It will be difficult to reach such consensus between now and the end of July, given that the drafting of the document is not yet complete.

We recommend that you should ask Keith to delay publication until the autumn.

Oliver Letwin.

OLIVER LETWIN

IN CONFIDENCE

PRIME MINISTER

NUMBER OF DES MINISTERS

1. After the last election I suggested to you that this Department needed only 2 junior Ministers in the Commons - plus a spokesman in the Lords. Since then my perceptions of what is required have evolved and I now think that a third junior Minister would be justified. (The most convenient disposition would be two in the Commons and one in the Lords.)

2. What has changed is that I have come to recognise that the Non-Advanced Further Education network of over 500 colleges in England and Wales needs much more attention than it has been given and than I had realised.

a. NAFE has, as you know, an important role - skill training across the entire civil field plus school subjects for a growing proportion of the 16-19s, all in increasing cooperation with the MSC.

b. Performance is patchy. The standards and attitudes that should be demanded by employers and supplied by the colleges are not nearly as widely demanded and supplied as in the main competitor countries.

c. Furthermore, we have come to recognise - as now confirmed by the Audit Commission - that many of the colleges do not use their staff efficiently and fail to market their courses effectively.

3. At present one junior Minister, Peter Brooke, is fully occupied with the many difficult policy changes we are implementing in Higher Education and is also responsible to me for civil scientific research.

4. The other junior Minister, Bob Dunn, is equally fully occupied with "Better Schools" policies and our many problems with the teaching profession.

5. There is no Minister who can give NAFE the attention it deserves, though of course I spread my own efforts over all the sectors.

6. Moreover the developing activities of the MSC call for more Ministerial cooperation with the Minister of State at Employment and the Chairman of the MSC than can now be provided.

7. For these reasons I now ask you to consider at a suitable time increasing the junior Ministers here from two to three.

8. Finally I believe that the changes we are trying to make in HE would be easier to put across and the scientific community reassured if the junior Minister involved were to be a Minister of State.

9. I am copying this minute to John Wakeham and to Sir Robert Armstrong.

KJ.

KJ

27 June 1985

OW

MINUTES OF A MEETING HELD AT HM TREASURY ON THURSDAY 27 JUNE 1985 AT 8.45 AM

PRESENT

Rt Hon Nigel Lawson
Chancellor of the Exchequer

Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Education and Science

Rt Hon George Younger MP
Secretary of State for Scotland

Rt Hon Nicholas Edwards MP
Secretary of State for Wales

Rt Hon Douglas Hurd MP
Secretary of State for Northern Ireland

Lord Young
Minister Without Portfolio

Rt Hon Peter Rees MP
Chief Secretary

Mr John Cope MP
Deputy Chief Whip

Hon Peter Morrison MP
Minister of State, DE

Mr Tony Newton MP
Minister of State, DHSS

Hon Peter Brooke MP
PUSS, DES

OFFICIALS PRESENT

Mr Burr (Treasury
Mr Corlett (Inland Revenue)
Mr Bird)
Mr N Thompson) DES
Miss Bartman)
Miss Hodkinson)

Mr M Evans (Welsh Office)
Mr Magee (Lord Young's Office)
Mr Dewsbury (DE)
Mr Parkes (DENI)
Mr Brewerton (SED)
Mr Letwin (No 10)

SUBJECT

Review of student Support

1. The Meeting considered the letter of 20 June to the CHANCELLOR OF THE EXCHEQUER from the SECRETARY OF STATE FOR EDUCATION AND SCIENCE, covering a further draft of the proposed consultative paper.

2. Before introducing his paper, THE SECRETARY OF STATE told colleagues that the Prime Minister and Business Managers wished publication of the Green Paper deferred until after the Party Conference in the autumn. They wished to minimise the number of controversial policy initiatives being announced before the Recess. He sought his colleagues' views, declaring his own preference to honour his public commitment to publish the document before the Recess.

3. There was general agreement that publication before the Recess was preferable to delaying publication until after the Party Conference. THE CHANCELLOR OF THE EXCHEQUER and other Ministers thought that the autumn would be a more politically sensitive time, with students back at university and able to concert vocal protests. Publication had already been delayed by several months: it would be better to get the document out as soon as possible just before the holidays.

4. THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that he would report Ministers' views to the Prime Minister.

5. Turning to the paper, THE CHANCELLOR OF THE EXCHEQUER thought that it would be better to set out only one option for student loans rather than the several currently displayed. Asked to choose between more and less generous loan options, it was not difficult to anticipate the public's response. It would therefore be better for the Government to decide which option seemed the most sensible and practical and then to display that one. With only the preferred option displayed, it would be important that the text of the paper made clear that the Government was not committed to a move towards student loans but was undertaking genuine consultations. This approach had been used with success in the Green Paper on Social Security.

6. His firm preference was for a loans option that did not phase out the parental contribution. In his view, savings accruing from a move to loans would better be used:

a. to count towards the savings that the Government needed to score; and

b. to be the source of additional funds for the higher education sector.

A reduction in the parental contribution should not be the first priority for any resources released by the introduction of loans. Although less immediately attractive to parents, a loans option without relief from parental contributions could be presented and justified in terms of the general benefit to higher education secured by the redeployed resources and the moving to a more equitable position, whereby the less well-off parents no longer subsidised the offspring of better-off parents.

7. THE SECRETARY OF STATE FOR SCOTLAND remained very concerned about the effect of a loans scheme on an individual graduate, say one entering the teaching profession. His calculations suggested that such a person in typical circumstances might be having to use 13% of his disposable income in his late 20s in order to repay his loan.

8. It was recognised that the public would not be slow to make such calculations for typical "hard luck" cases. The suggested cut-off point of 85% of average earnings might not be generous enough to prevent some very disturbing examples being drawn and loans becoming discredited. The MINISTER OF STATE, DHSS was concerned at the poverty trap that would be created by a sharp cut-off. There was general support for the MINISTER WITHOUT PORTFOLIO'S suggestion that a sliding scale of repayments be introduced for those earning between 85% and 100% of average earnings. This would both avoid an abrupt poverty trap and also mitigate the effects on the less well-off graduates just eligible for repayment of loans. The CHIEF SECRETARY hoped that graduates' income rather than earnings would be the basis for calculating repayment.

9. THE SECRETARY OF STATE FOR NORTHERN IRELAND saw the Government's objective as that of putting itself into the position to be able to introduce loans in the next Parliament. He wanted the paper to be a little more consultative in tone than at present, and thought that it was essential that there should be something to win the support of parents. In his view, only the possibility of a reduction at some future date in the size of expected parental contribution would win such support. The SECRETARY OF STATE FOR WALES concurred.

10. THE CHANCELLOR OF THE EXCHEQUER suggested that it might be sufficient to win parental support to promise that parental contributions should not be increased beyond their present levels. Ministers agreed that this would be of some relief to parents but did not conclude that it would be sufficient.

11. Ministers then offered more detailed comments on the paper.

a. THE SECRETARY OF STATE FOR WALES thought that the positive arguments in favour of loans needed to be developed more strongly at the beginning of the paper. One such argument was the comparison with other countries. The CHIEF SECRETARY had also been impressed by the details of international comparisons. He favoured a reduction in the size of paragraph 20, describing the position in West Germany, Sweden and the USA, and the addition of an annex to the paper which set out the information on international comparisons in more detail.

b. Ministers agreed that the suggestion in paragraph 12 of recovering parental contributions through the tax system should be dropped.

c. The MINISTER WITHOUT PORTFOLIO favoured the exclusion of the sentences in square brackets in paragraph 13. THE SECRETARY OF STATE FOR SCOTLAND was also concerned that to separate vocational training in this way for courses such as medicine would bring powerful objections from bodies such as the BMA.

d. Ministers were generally opposed to including the option in paragraph 15 that support might be reduced or even suspended in the case of those students who had been out of school for less than a year.

e. THE MINISTER OF STATE, DE thought that paragraph 16 (on scholarships and bursaries) was rather dampening.

f. THE CHANCELLOR OF THE EXCHEQUER was concerned that paragraph 21, in putting the case against loans so strongly, was simply giving ammunition to those who would wish to argue publicly against loans. The SECRETARY OF STATE FOR NORTHERN IRELAND however argued that the case against loans had to be put fairly if the paper were to be seen as truly consultative.

g. THE SECRETARY OF STATE FOR SCOTLAND regarded the sentences in paragraph 26 currently in square brackets as a sufficient safeguard for the Scottish position and wished them to remain in the draft.

h. THE CHANCELLOR OF THE EXCHEQUER wanted paragraphs 28 - 31 condensed into a single loans option on the lines he had earlier indicated. He would have preferred the implications of that option to be shown in broad outline rather than in the kind of detailed tables already annexed to the paper. Other colleagues, however, argued that the implications of a preferred loans option would have to be exemplified. If there were no figures, the media would invent them. If there were only one set of illustrative figures, these would be taken as the Government's firm proposals.

i. In describing the preferred loan option the CHANCELLOR OF THE EXCHEQUER thought that little need be said about its detailed administration. His own view was that the Government must look for the most cost-effective method of administration. If that were to be the use of the Inland

Revenue to recover loans from graduates through the tax system, then the Government ought to choose that method. He also thought that the range of questions in paragraph 33 should be reduced and question (o) in particular omitted.

12. THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE, in summing up the discussion, undertook to come back to colleagues with a revised paper in the light of their comments. In particular he undertook to consider:

a. whether the positive arguments for a loans option should feature earlier and more prominently;

b. if international comparisons should be dealt with more fully;

c. whether paragraph 13 might be redrafted in the light of comments;

d. given the proposed omission from paragraph 15, whether there was any other means of encouraging a gap between school and higher education;

e. whether paragraph 16 might be written more positively or whether it should be omitted;

f. how paragraph 21 might be redrafted more softly; and

g. whether only one loans option should be presented and, if so, whether in it the parental contribution should be partially phased out over time or simply capped.

He also undertook to produce some exemplifications of the effect of the favoured loan scheme on typical graduates, such as teachers, civil servants and a better paid profession.

13. In conclusion, THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE asked colleagues to send him detailed drafting amendments by 2 July. He would arrange for Ministers to have a further discussion as soon as the next draft was available.

14. Ministers present invited THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE to proceed accordingly.

<u>Distribution</u>

Those present
PS/No 10
PS/Lord Chancellor
PS/Secretary of State for Trade & Industry
PS/Secretary of State for Social Services
PS/Secretary of State for the Environment
PS/Secretary of State for Employment
PS/Secretary to the Cabinet

MR ~~BUTLER~~

Yes. Pl. consult me when the document arrives.

FERB

STUDENT LOANS

I have had a word with Oliver Letwin. The second meeting of the ministerial group looking at student loans takes place on Thursday morning. They will be considering the draft consultative document, and the intention is that this should be published in July. Oliver expects that Sir Keith Joseph is intending pretty quickly after the meeting to put the document to the Prime Minister for her approval. Oliver does not think there is a lot of work to be done by Ministers and officials, after Thursday's meeting, before the document comes up to us.

It would I think be difficult for the Prime Minister to jump in at this stage, in advance of Thursday's meeting.

Content therefore that we should await the draft consultative paper from Sir Keith, which would provide a natural opportunity for the Prime Minister to take stock of progress so far and, after discussion as necessary, make clear her view that the idea should not be pursued? The key protagonists she will need to tackle are the Chancellor and Sir Keith, as I mentioned yesterday.

MEA

Oliver Letwin informed.

To b.u. when document arrives.

MEA 26/6

MARK ADDISON

25 June 1985

PRIME MINISTER (2) AT 21/6 21 June 1985

REVIEW OF STUDENT SUPPORT

Keith Joseph is holding a series of meetings with the Chancellor and other relevant Ministers, to develop an agreed consultative paper on student support. The present draft paper will be discussed at a further meeting in the Treasury next week, and may then be changed again.

There is no need for you to intervene at this stage. But you may wish to note the progress made so far.

Like earlier drafts, the paper:

1. describes the difficulties of the present system - £500 million cost, parental contribution, students getting DHSS benefits as well as grants, etc.

2. lays down the principle that both students themselves and the taxpayer should help to pay for higher education, since both student and society at large benefit;

3. identifies options for reform other than the introduction of loans - eg better administration of parental contributions, different arrangements for support of students on long courses, a system of scholarships and bursaries, a 'higher education tax', etc.

The loans section of the paper is now considerably altered. Under pressure from the Chancellor, the basic suggestion is that students should be given:

- an interest-free loan to replace the grant;

- with the debt revalued to allow for inflation;

- but with a maximum revaluation of 5% pa;

- and with students protected in two ways: (1) no repayments until two years after the course ends, (2) no repayment in any year when the student's income is les than 85% of the average wage, (at present this would be 85% of about £9,000 = c.£7,500).

Option 6 of the Annex

The figures have changed slightly in the latest draft.

With these arrangements, the parental contribution could be reduced by 5% a year, beginning six years after the introduction of loans, and still yield substantial savings in the middle to long-term, with no risk of increased costs in the early years.

Graduates, whose average earnings over a lifetime are now about £13,000 pa would be faced with a total bill of about £30 per month in real terms for 15 years, starting two years after the end of their course; those who had incomes below about £7,500 pa would pay nothing.

Next Steps

Keith will undoubtedly report to you at the end of next week. You may then want to hold a meeting, since both the timing and the substance of the consultative paper are politically delicate.

We recommend that you should wait for the report before taking any action.

OL

OLIVER LETWIN

ES

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

FROM THE SECRETARY OF STATE

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

CONFIDENTIAL

20 June 1985

Dear Nigel

REVIEW OF STUDENT SUPPORT

Following our meeting on 13 June, I enclose a further draft of the consultative paper. It has been reduced in length by about one quarter, and takes account of the views of colleagues expressed at the meeting.

The section on loans has been recast, and your proposal for an interest-free loan scheme with repayments indexed has been given prominence. This option, together with variants on it, have been costed and are exemplified in Annex B to the paper. The variants incorporate suggestions for mitigating the repayment burden on students from lower income families, and also for reducing and (in one variant) abolishing the parental contribution. We shall need to decide which of the options is to be displayed in the consultative paper, and whether the Government should indicate a preference.

George Younger has emphasised the need to take account of the impact of a loan scheme on students taking longer courses, in particular in Scotland. His officials have suggested a way to deal with this, which is described in paragraph 26 of the draft paper. I doubt, however, whether the expenditure implications of this approach, which could reduce the eventual savings accruing from a loan scheme on the lines you propose by some £30-40M, would be acceptable. An alternative approach would be to build in softer repayment terms for students on longer courses. If we are not to embark on a full loan scheme, the problem might be resolved by adopting the proposal aired in paragraph 13 of the draft paper, namely, to limit grant support to a fixed period of years, and leave it to students on longer courses to look for additional support from elsewhere.

CONFIDENTIAL

I am copying this letter to those who attended the meeting (George Younger, Nick Edwards, Douglas Hurd, Peter Rees, David Young, John Wakeham, Peter Morrison and Tony Newton) and also for information to the Prime Minister, Quintin Hailsham, Patrick Jenkin, Norman Fowler, Tom King and Norman Tebbit.

Yours,

Keith

DRAFT

20.6.85

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REVIEW OF STUDENT SUPPORT - CONSULTATIVE PAPER

INTRODUCTION

1. The Secretary of State for Education and Science announced on 5 December 1984 that the Government proposed to consider - and consult widely about - whether a radical change in the student support system, which might include loans, should be made so as better to meet the needs of students and their families whilst safeguarding the interests of the taxpayer. The terms of reference of the review are to examine financial support for students in higher education, concentrating on support at first degree and sub-degree levels.

SECTION I

THE EXISTING SYSTEM

2. The present arrangements for providing financial support for students undertaking higher education had their origins in the report of the Anderson Committee of 1960.(1) Its principal recommendations were implemented in 1962 following the enactment of legislation which still underpins the system of student awards today. The main principles which the Committee advocated were: equality of opportunity of access to higher education; freedom of choice of institution and course (subject to an offer of admission); and the availability of grants for the full period of any designated course. The Anderson Report prepared the way for the expansion of higher education recommended in a report by the Robbins Committee in 1963,(2) and the adoption of the principle that "courses of higher education should be available for all those who are qualified by ability and attainment to pursue them and who wish to do so".

3. These two reports set the scene for the massive expansion in the number of students entering higher education which accelerated in the 1960s and which has continued to the present time. A combination of demographic factors

(1) "Grants to Students", Cmnd 1051
(2) "Higher Education Report", Cmnd 2154

and increased opportunities to participate in higher education has led to a threefold increase in the number of award-holders between 1962 and 1983/84. There has also been a threefold increase in the real level of public expenditure on student maintenance grants in the last 20 years. There are now about 450,000 award-holders, and public expenditure on their maintenance is expected to total some £530M in 1985/6(3). This excludes additional payments to students or their families through social benefits (around £130M) and tax concessions accruing through deeds of covenant (about £70M). There is in addition a much larger subsidy still which is given through the provision of free tuition: at an average annual cost of tuition in the region of £3500 per student per annum, this is currently in excess of £1,500M a year. This massive expenditure on higher education is concentrated on only 1 person in 7 in the 18-21 age group in England and Wales (1 in 5 in Scotland).

4. The essential features of the present system (a detailed description of which is in Annex A) have remained unchanged since 1962, except that contributions from families to the payment of tuition fees ended in 1977. In particular, student support has been oriented almost exclusively towards a system of higher education which is based on full-time degree or degree equivalent study from the age of 18 (17 or 18 in Scotland). There has been some widening in the scope of courses which entitle students to an award, such as the extension to Higher National Diploma and DipHE courses in 1975. Nevertheless, there are many advanced courses which do not at present carry an automatic entitlement to awards. More emphasis is now being placed on continuing education and more flexible methods of study.(4) If these developments are to be encouraged further, the present awards system will need to be adapted.

5. The case for reform is highlighted by the social changes since the 1960s. As long ago as 1960 the majority of the Anderson Committee recommended the abolition of the parental contribution, but this was not accepted by the Government of the day. Since then the age of adult responsibility has been

(3) All figures are for GB, unless otherwise stated.
(4) See Sections 4 and 6 of the Green Paper, "The Development of Higher Education into the 1990s", Cmnd 9524

reduced from 21 to 18; and social and financial independence are now expected by young people at an earlier stage than in the past. In consequence the requirement in the present awards system that students should be financially dependent on their parents until the age of 25 is increasingly being criticised. Another criticism is that it does not place a legally enforceable requirement on parents to make their contributions, and the fact that some parents do not pay the assessed amounts has adverse consequences for their student children. Also, the present system enables some parents to exercise considerable skill in order to avoid their liabilities by reducing their assessable income to a minimum.

6. The escalating cost of awards has, however, made it difficult to contemplate radical changes to the awards system. For example, in England and Wales alone, extension of mandatory awards to all full-time students on advanced courses (including those students at present receiving discretionary awards) would cost about £70M; abolition of the parental contribution would cost an additional £280M; and reduction in the age of independence from 25 to 21 would cost £75M. Moreover, the public expenditure pressures in recent years have made it difficult to maintain the real value of the grant year by year.

7. There is also a need to rationalise the relationship between student awards and social benefits. Students are currently eligible to claim social benefits, particularly in the long vacations which the mandatory award is not designed to cover. Student claims for supplementary benefit and housing benefit have risen sharply since the 1960s and up to perhaps one half of all students are claiming housing benefit and supplementary benefit during part of the year. The Government believes that in the long term it is right in principle to remove students from the benefit system, and to make support available under the awards system for those in need throughout the year.

8. Our membership of the European Community and with it the impetus towards mobility between Member countries - and particularly the mobility of students - is another dimension which should be taken into account. As our existing student support arrangements are very different from those of most of our Community partners, there would be advantage in considering whether changes could be made which in the long run would make harmonisation easier.

9. For all these reasons, the time is ripe to examine from first principles the arrangements for supporting students entering higher education in the

light of higher education policy and recent developments, and taking account of what the country can afford.

SECTION II

UNDERLYING PRINCIPLES

10. Higher education may be regarded as an investment in the future, both for the individual student and for the community at large. The national life and the national economy stand to benefit from the contribution that suitably qualified students can make; indeed the Government believes that it is vital for our higher education system to contribute more effectively to the improvement of the performance of the economy.(4) This aim might be furthered by building into the awards system incentives for students to study subjects yielding particular benefit to the economy, such as science, engineering and technology. There is also scope for more sponsorship by employers. At the same time the individual also stands to benefit from higher education both in tangible ways - through the ability of most graduates to command higher than average earnings in later life - and also (less tangibly and more personally) through the opportunity to broaden horizons and through an added enrichment of life.(5)

11. The question therefore needs to be addressed whether the cost of higher education is fairly distributed between the taxpayer on the one hand and the student (and his family) on the other. Under the present system the overall direct contribution of students and their families towards the students' higher education is only some 10% of the total expenditure on maintenance and tuition costs (and, where no parental contribution is made, that contribution is nil). The other 90% is met by taxpayers who in the generality of cases are likely to earn less throughout their lives than the students they are supporting. It is

(4) Ibid, 1.2

(5) One means of measuring the contribution of higher education to the economy as a whole is the social rate of return of first degrees which, on the basis of certain assumptions, has in recent years been in the region of 5 to 8%. The private rate of return of higher education to the student is considerably higher than the social rate, even allowing for graduates' generally higher tax payments.

acknowledged(4) that it will be necessary for the Government to continue to use taxpayers' money to meet the greater share of the cost of higher education, including the cost of tuition fees.(6) But higher education should be considered not just as an individual right, for those qualified to receive it, but also as an individual benefit towards the cost of which its recipients should make a realistic contribution. It may be thought that students who later enjoy higher earnings will contribute towards their subsidised higher education by paying higher taxes than most people. But higher taxes cannot be counted as a repayment of student support when the same rates of tax apply to non-graduate higher earners. The introduction of loans might, for example, provide a suitable and fairer means of repayment. This and other ideas are considered below.

SECTION III

POSSIBLE CHANGES TO THE EXISTING SYSTEM

12. Without embarking on large reforms of student support, there may be some scope for redeploying resources within its general framework. As noted in Section I, the parental contribution system has been the subject of some criticism. But it does at least provide a means of relieving the taxpayer of, and shielding the student from, a greater share of the cost of higher education. And it could be made to operate more fairly by further adjustments to the parental contribution scale, by assessing contributions on the basis of taxable rather than residual income or by recovering them via the tax system. The assessment of a parental contribution on the basis of income before tax would simplify administration. It would also be more equitable, since it would ensure that those parents already enjoying tax relief, eg mortgage payers, would no longer derive a double benefit by virtue of the residual income assessment. Recovery of contributions through the tax system would protect those students whose parents do not make up the full parental contribution and would enable the full grant to be paid to all students.

(4) Ibid, 1.9 and 9.4

(6) The Jarratt Report recommends that consideration should be given to fees being subsumed in the general funding of institutions: ibid, 3.9.

Recovery from parents could be either on the basis of a flat-rate or "student tax", or it could be related to the assessment made for individual parents each year. [Use of the tax system could, however, present Inland Revenue with difficulties, particularly if individual assessments were to be involved; but this would be offset by the savings resulting from abandoning existing arrangements for administering student support.]

13. Another area in which some adjustment to the existing system could be made is in the length of courses for which mandatory awards would be available. The Government is concerned at the extra costs of first degree courses which last for longer than three years (four years in Scotland).(4) This trend could be halted by limiting mandatory support to a set period rather than to a set (first degree) level. This could be fixed at three years - and four years in Scotland. [Support might instead be limited to courses with a general educational content leaving those wishing to study purely vocational subjects to look to sponsors and potential employers, or to discretionary awards, for support. Subjects such as medicine and architecture, which comprise both general educational and vocational elements, could be supported by mandatory awards up to the point where the vocational training began. Thereafter sponsoring employers (including the Government itself in some cases) would step in. Any approach on these lines would presuppose that the vocational and general educational elements of courses could be separately identified.]

14. As noted in Section I, the Government believes that it is right in principle to remove students from entitlement to state benefits throughout the whole year.(7) One of the criteria to be applied in considering any new scheme of student support will be the extent to which it is compatible with this aim. In particular, arrangements will have to be devised to make available appropriate assistance for those in need during the long vacations for which the awards system does not at present provide support. Another aspect which will need to be reviewed is the present multiplicity of systems of supporting the dependants of students. It seems likely that general changes in the supplementary benefit scheme arising out of the review of social security may achieve some simplifications in the treatment of these students for benefit purposes. But there

(4) Ibid, 6.8

(7) See the Green Paper "Reform of Social Security", Cmnd 9517

is clearly a case, on administrative grounds and in line with the Government's policy to remove students in general from benefit, for rationalising the various systems of support for students' dependants.

15. The existing awards system or any new scheme of support which is introduced could incorporate features designed to encourage trends which are considered to be desirable. For example, if it is thought that students should be encouraged to take time off between leaving school and entering higher education, the level of support could be reduced or even be suspended in the case of those who had been out of school for less than a year. At present, in contrast with most other countries, nearly 90% of our students study away from home at an estimated additional cost of £80M. If it was thought desirable to encourage students to study from home, the level of the grant or other support available could be based on the present home rate. However, such measures would need to be applied flexibly if students' ability to choose when and where to study is not to be unduly impeded. Nor should they encourage students to rely more heavily on state benefits, thus running counter to the Government's general aim of removing students from benefits.

16. There are other, more radical, changes which might be contemplated in order to promote the Government's general objectives and increase motivation. One possibility would be to introduce scholarships (awarded on merit on the basis of A-level or undergraduate study) or bursaries (awarded to encourage students to take certain subjects judged to be in the national interest) alongside existing arrangements for free tuition and either in place of, or supplementary to, any other general support arrangements. The administration of scholarships and bursaries would however be complex. The former would impose extra burdens on the institutions of higher education and the latter would involve central Government in difficult and invidious decisions; and scholarships would not make for the fairer distribution of higher education costs sought by the Government.

17. One means of achieving a fairer distribution of the cost of higher education might be through a Higher Education tax (sometimes called a "graduate tax"). Under this approach every student would receive a flat rate grant covering maintenance which could be made available in blocks taken up according to the student's means and at his discretion. The overall cost to the Government would be recouped by a proportional tax levied through Inland Revenue on graduates' subsequent earnings. The repayment period and tax rates could be balanced in a variety of ways and related to the amount borrowed or to earnings. It

would anyway be important to ensure that those with low or no earnings paid less than the better off, or nothing at all. The main advantages of this approach would lie in equity, since payment for higher education would be determined by future success, and in the removal of the dependence on parents. If full integration into the tax system could be achieved, it would be easy to secure repayments and to keep default rates to a minimum. There would, however, still be some scope for avoidance and evasion of the HE tax - for example by artificially depressed earnings or through emigration. It is uncertain what the psychological impact on the will to succeed of an earnings related tax would be, but any potential disincentive must already exist in a progressive tax system.

SECTION IV

LOANS

18. The most widely canvassed alternative to the present system is one involving loans in whole or in part. Many believe that a personal investment by a student in his or her higher education through loans would be timely; and this could be held to be justified by the logic in Section II. It could also help to overcome some of the difficulties in the existing system mentioned in Section I. In particular loans could go some way to redistributing part of the cost of higher education which at present falls heaviest on the majority of taxpayers who do not enjoy higher education or the lifelong advantages it can bring. Moreover, the present system contains no incentive to students to look carefully at higher education opportunities in considering what will offer them the best available personal and career opportunities. The introduction of loans could be beneficial in encouraging students to take more care in deciding whether they want to go into higher education. It could also influence choice of subject and institution, and encourage a greater degree of commitment by students to their studies. This in turn could influence the type of provision and help to increase the standards offered by the institutions themselves.

19. Replacing the present grant system, wholly or partly, by a loan scheme would produce substantial net savings in the medium to long term. Some of these would enable the Government to find the necessary resources with which it could progressively make desirable reforms, such as extending mandatory support to other groups in higher education, and decreasing students' dependence on their parents. The level and timing of savings would depend on the terms of repayment, the concessions offered, the incidence of default, and

administrative costs. In the short-term there would be minimal reduction in cost and possibly a significant increase if, for example, there were no parental contribution to loans as there is at present to grants.

20. Loans have already proved a practical proposition elsewhere. Indeed the UK system of student support, being based entirely on grants, is virtually unique in the western world. Although there is a great diversity of systems elsewhere, most countries support students through loans to a greater or lesser extent. West Germany switched in 1983 from a part loan/part grant-based system of student support to one based predominantly on 100% interest-free loans administered by the Federal Government. In Sweden, the small basic grant received by all students is supplemented by a loan, which now amounts to 90% of the total award. The complicated Federal and State arrangements for student support in the USA also give prominence to loans, with limited value grants available for the most needy. Caution is necessary in making international comparisons, since the interaction of the higher education, student support, social benefits and tax systems varies from country to country. But there is much in the experience of these countries that should encourage us to look to loans as a possible way forward in the UK.

21. But the case for loans is not unanswerable. The introduction of loans in place of, or alongside, the present system of grants might radically alter the expectations and plans of potential students and their parents, particularly those from the poorest families who now receive 100% grant. There is concern that loans might discourage potential students from participating in higher education at all, particularly those who intend to defer entry to work to raise families, and older potential students who are well established in jobs and have built up commitments. Some point to the social implications of the burden of debt on young adults at the start of their careers and in many cases married lives; and to the difficulty of repayment for those on low incomes. This in turn has implications for the ability of low-paid vocational professions to attract graduates, and for those on long courses. There would also be great administrative difficulties and costs in running a loan scheme. These points are considered below in more detail.

22. Effect on participation - A consequence of giving students, through the introduction of loans, more incentive to consider carefully the costs and benefits of higher education might be that some would conclude that it was no longer worthwhile. Others might be deterred by the responsibility of servicing a loan. Some of these effects on participation would no doubt

be transitory and would decline as loans became accepted as the normal means of financing higher education; employers too might adjust their patterns of reward to ensure that they could continue to attract the right number and kind of graduates. However, the impact on participation of the introduction of loans cannot be accurately predicted. Experience from other countries serves as only a limited guide, since the introduction of loans abroad has often been linked to increases in public support available for education and has opened up access to higher education for many for whom it would not otherwise have been available. There is no precedent for a change from a universal system of grant as of right to one of loans or loans and grant in combination. Nevertheless, other countries operating loans schemes have high rates of participation in higher education. In West Germany 73% of students qualified to do so enter higher education: this is 18% of the relevant age range.(8) The experience of other countries also shows that many students are prepared to participate in higher education even without any grant or loan support. For example, in the USA and Canada around 50% of students receive no support. In Sweden 20% receive only the small basic grant, while under the relatively new West German scheme over 60% of students fall outside the scope of the loans scheme.

23. <u>Terms of repayment</u> - Careful thought would have to be given to setting rates and periods of repayment at levels that were geared both to what the taxpayer could afford through Government expenditure and to the former students' ability to repay the loan. In some countries interest rates are charged but are subsidised compared with commercial levels. In West Germany no interest is charged unless there is default by the borrower; and good examination results can also reduce the amount to be repaid. Repayment periods may be quite short, for example 10 years in the USA. It is difficult to gauge what the optimum conditions for a UK system might be; but the more significant the shift towards loans, the milder the loans terms might be. For example, repayments might be spread over 15 years, and no repayment might be required until some time after course completion; and the outstanding debt may be revalued in line with inflation instead of being subject to a true rate of interest.

(8) Measures for Great Britain do not allow exact comparisons to be made; but the present GB qualified participation index of around 80% and age participation index of around 14% do indicate broad similarities with the position in West Germany.

24. The extent to which loans would produce savings in public expenditure will depend in part upon the level of repayments that can in fact be collected. Inevitably there will be a wilful or negligent minority of defaulters the pursuit of whom may involve disproportionate difficulty and expense. (A grant recovered through the Inland Revenue would largely remove this problem.) Experience of other countries provides useful lessons on how a loan scheme can be tailored so as to minimise default at acceptably low administrative cost. And there is no reason to believe that experience in the UK would be very different from that abroad, namely that the great majority of students can be expected to meet their obligations. On this basis, the default rate might reasonably be assumed to average around 10%.

25. Large debt burdens might prove especially hard to bear for students from poorer families, who have hitherto been heavily reliant on grants and who would not have a ready made source of parental support to draw upon. Consideration would also have to be given to easing the terms of repayment for those raising families, students aiming at the less well-paid careers, and others on low incomes. One option here might be to defer payments in years when income has fallen below, say, 85% of average earnings (currently £170 per week gross). Repayment of debts might also be based on individual, not marital, status and not be recoverable from spouses. Debts could be written off altogether at death or retirement.

26. Longer courses - One potential difficulty with any loan scheme is the additional repayment burden on students on longer than average courses. In England and Wales the standard degree course is three years, but there are a number of courses, for example in the fields of medicine and veterinary science, which are considerably longer. A particular problem arises in Scotland where, because of the characteristics of the Scottish education system, Honours degree courses last for four years. [A dual loans and grant system might be one way round this difficulty. Under this system a flat rate loan could be made available to all students to cover the cost of maintenance for three years irrespective of the length of course and the subject covered, with fourth or subsequent years covered by a grant awarded on the basis of existing schemes. Safeguards would of course be required to avoid abuses of the system. An extended loan might be available for students who failed to fulfil the criteria for a grant for any additional year or years. Repayment of the loan would be subject to the same arrangements for repayment as would apply to a straight loans scheme. Such an approach would however carry an extra cost, both in non-repayable grant and also in administration, since the awards

system would have to remain in being alongside the new loan scheme.] [One way round this difficulty would be to be to build in softer repayment terms for the additional loans required for longer courses.]

27. Administration of a loan scheme - In principle, responsibility for making the loans, monitoring repayments, authorising deferments, recovering from defaulters and writing off debts, might lie either in the public or the private sector. In practice, however, the commercial banks are unlikely to be willing, without Government guarantees, to take on the administration of a loan scheme which would be available as of right to all students qualifying for admission to higher education, whatever the commercial risk. In most other countries the banks are not involved in loan schemes. In Sweden, administration of the loan scheme passed from the banks to a state agency in the 1960s, partly because of the Government's determination to pursue bad debts and partly to maintain interest rate subsidies. A state-run scheme also operates in West Germany and other European countries. In the USA, reliance on Government agencies has been minimised through the operation of a variety of schemes administered by the banks. However, the schemes are underwritten by the Federal Government which is faced with problems of escalating cost and unacceptable levels of default. Experience therefore seems to argue for a centrally-run scheme as the likeliest option for any UK switch to loans. Preliminary estimates suggest that this could cost up to about £10M a year in administration.

Loan options

28. The options discussed below and exemplified in Annex B cover the main loan/parental contribution permutations which the Government believes represent a reasonable starting point for public debate on loans. Students already on courses during the transition period would carry on under the existing arrangements. For new students the level of support made available through loans or mixed parental contributions and loans would be equivalent to current grant levels. The number of students qualifying for support is also assumed to be constant at the present England and Wales figure of 380,000. However, experience from abroad shows that take-up and participation are not invariably linked. Table 1 of Annex B exemplifies a spread of possible take-up rates although, as noted there, take-up will vary between options and in any event is unlikely to be as high as 100%.

29. The most straightforward option for the introduction of loans would be to substitute loans for the present grant element of the award, while retaining

the parental contribution in its present form. Clearly, any major shift of this kind from the present arrangements would not be without its difficulties. The effects on participation and take-up rates of a total switch from grants to loans would, in particular, be uncertain. But these difficulties could be mitigated by the mild repayment terms spelt out in the notes to Table 1 of Annex B, and by inflation indexing the loans rather than charging interest. Moreover, a limit of, say, 5% could be applied to the annual indexation. This would mean that, in years of high inflation, the repayable amount outstanding would actually fall in real terms. Retention of the parental contribution would also mitigate the abuse sometimes associated with student loans of providing subsidised loans for those of ample means to use for purposes other than student support. An option on these lines would ensure that the Government's contribution to student support was maintained at present levels in the early years of the scheme, and that significant public expenditure savings would eventually accrue in due course.

30. A number of variants can be developed on this option. The rate at which savings accrued could be increased by limiting the repayment period to, say, 10 years; and the savings could also be increased if there were no cap on indexation or if a true rate of interest were charged. However, these modifications might be considered too harsh, particularly for students from lower income families. Alternatively it would be possible to incorporate phased reductions of the parental contribution, although complete abolition would have a high cost. One approach would be to use some or all of the loan repayments to effect reductions in parental contributions of, say, 5% per annum: this rate might be increased in the longer term as the flow of loan repayments increased. Further softening of the terms of repayment could be incorporated to reduce the adverse impact on participation from lower income families. For example, indexation of the debt could be postponed until repayment began, and waived during subsequent periods when repayment was deferred. A finite term could be set on repayments, with any debt outstanding at the end of the period written off. This approach would work to the advantage of graduates with lower earnings, but might in some cases act as an incentive to default or as a disincentive to seeking employment. Finally a system of part grant and part loan could be introduced, perhaps leading to the gradual phasing out of the grant element.

31. The option described in paragraph 29 and some variants on it are displayed

in Table 1 of Annex B. Tables 2 illustrates repayment rates for individual students, expressed in cash terms. Table 3 compares average graduate and other earnings. [The Government believes that .... is to be preferred.]

SECTION V

CONCLUSIONS

32. This paper has argued that there is a need to re-examine our system of student support in order to measure it against developments in higher education that have taken place in recent years and which may be expected in the years ahead. Changes may also be called for in the light of the escalations in expenditure that have taken place since the system was introduced in 1962 and in the current national interest. It is the Government's view that a more rational and fairer system of supporting students should now be seriously considered; and one which places more of the financial burden on those who benefit from higher education, and less on the taxpayer at large. The introduction of loans would be one way in which greater equity could be achieved, and the Government sees considerable attractions in this approach. There are, however, other possibilities, some of which could be adopted in combination with a loan scheme. There is also the possibility of modifying the present system.

33. The Government would welcome the widest possible public debate on these propositions. In particular, it invites views on the following questions:

<u>Sections I and II</u>

(a) What adjustment in the burden of student maintenance should be made as between the taxpayer on the one hand and students and their families on the other?

(b) Should entitlement to mandatory support be extended to other types of courses? If so, which ones?

(c) Should students be financially less dependent on their parents? If so, is the priority a reduction in parental contributions across the board, or should any reduction be directed at achieving more independence for the 20 to 25 year olds?

Section III

(d) If the parental contribution system is to remain, what if any adjustments should be made?

(e) Equally, should either of the two administrative changes described in paragraph 11 be introduced, viz -

(i) a switch to gross (or taxable) income assessment and

(ii) recovery through the tax system, if workable?

(f) Should entitlement to mandatory support be based on a standard period (with exceptions)?

(g) Should the period for support be limited, in the case of vocational courses, to the (initial) period of general education?

(h) If benefits are no longer to be available to students, what kind of hardship scheme (with or without loans) should be set up, and who should administer it?

(i) In view of the cost implications, should students be encouraged through the support arrangements to study at a local higher education institution?

(j) Should the support arrangements encourage students to take a year off between school and entry into higher education?

(k) Should awards be applied selectively on merit as with scholarships, or according to national needs, as with bursaries? If so, how should the schemes be administered and by whom?

(l) Should the cost of student support be repayable by means of a Higher Education tax levied on the former students? If so, should the tax be assessed -

(i) individually according to the amount of support received; or

(ii) on a flat rate earnings-related basis?

Section IV

(m) Should loans be introduced? If so, should there be mixed grants and loans, leading eventually to 100% loans?

(n) Should the loan terms be subsidised heavily, moderately or not at all? In particular -

(i) should there be reductions and/or deferrals of repayments when former students are on low incomes or unemployed?

(ii) should there be a true interest rate or simply inflation-proofing?

(iii) should the standard repayment period be 10 to 15 years, or longer?

(iv) what should be done about longer courses?

(o) Taking account of public expenditure costs, which of the options illustrated in Table 1 is to be preferred?

[Note - Some of these questions will be omitted or amended when the paper is agreed.]

ANNEX A

STUDENT AWARDS

1. Under present arrangements students on advanced courses who have been ordinarily resident in the UK for the three years before their course are eligible for mandatory awards. In England and Wales these awards are administered by local education authorities and in Scotland by the Scottish Education Department. Although the Scottish arrangements cover a slightly larger number of courses, and deal differently with students' travel costs, it has been the policy of successive Governments to maintain parity of treatment for students on both sides of the border so far as main rates of grant and parental contribution scales are concerned.

England and Wales

2. Mandatory awards are made to students on designated courses of advanced further education. These are full-time degree or degree comparable courses: DipHE courses, HND courses run by BTEC, and courses of initial teacher training. Awards for other courses - other than for certain postgraduate study - are discretionary: each individual award-making body decides the number of such awards it can make and the rates and conditions of grant and bears the full cost itself. The remainder of this note will concern mandatory awards.

3. A student has a right to an award for only one attempt at a basic advanced qualification and so those who have undertaken previous advanced study (irrespective of whether an award was received for that study or not) are rendered ineligible. Students must also satisfy certain residence conditions to be eligible for support.

4. The award covers a student's maintenance, including a flat-rate sum for travel, and fees. For those resident in the parental home the basic maintenance grant is £1480.* For those living outside of the parental home it is £2165 for those in London, and £1830 for those elsewhere. Those receiving free board and loding are entitled to a grant of £780. The grant is assumed to cover the Christmas and Easter vacations and 30 weeks of term-time. In addition to the basic maintenance grant, the student may also be eligible for additional maintenance. The main supplementary allowances are for extra weeks of study and for dependants.

5. The cost of maintenance is shared between the State, students and their families. Students aged 25 or over, or who have supported themselves for 3 years before the start of their course are regarded as independent of their parents for awards purposes. A parental contribution is assessed for all other mandatory award holders.

6. The parental contribution is based upon the parents' residual income: the income of both parents is taken into account in its calculation. Residual income is defined as the parents' gross (taxable) income in the preceding financial year less certain deductions including those for other dependants, interest payments (including mortgage interests), superannuation, life insurance and pension scheme contributions. After residual income has been calculated, and parental contribution assessed, a further deduction is made in respect of any other dependent children of the family: £240 if the child is an award holder, or £85 otherwise.

7. A nil parental contribution is asssessed where parents' residual income is less than £8100. At £8100 a contribution of £20 is assessed; contributions are then assessed at the rate of £1 for each £7 of additional income to a residual income of £10,300, then £1 for every £5 to a residual income of £15,000, and £1 for every £4 thereafter subject to a maximum contribution of £4000.

8. For the spouses of independent students the contribution is again based on residual income. No contribution is assessed on incomes below £6300. At £6300 a contribution of £10 is assessed; contributions are then assessed at £1 in £5 to a residual income of £10,2000, and beyond that at the rate of £1 in every £10.

9. The student's contribution is not based on residual income. On incomes (net of tax, national insurance, child benefit and earnings) beyond £425 the student is assessed to contribute pound for pound towards his grant. However, scholarship income to a limit of £1280 (or £1600 in the case of an Industrial Scholarship) is disregarded.

10. The maximum contribution towards the grant from whichever source(s) is limited to the maintenance element of the award. Fees are met in full by the State, and are not subject to parental or other contributions. They are paid direct to the college by the award-making body.

11. In addition to the main rate of grant, there are a number of supplementary allowances which certain students - for example those who are over 26, or who are disabled, or who have dependants - are eligible to receive. The main awards regulations provide for the dependants only of students defined as "independent" (ie those who are over 25 or who have support themselves for three years) and married before the start of their courses. (Dependants of other students are supported under a hardship scheme administered by DHSS on behalf of DES under regulations made specifically for the purpose.)

Scotland

12. For students who are ordinarily resident in Scotland, Students' Allowances are paid at the discretion of the Secretary of State. The range of courses for which students' allowances are offered by the Scottish Education Department is wider than that covered by the mandatory scheme in England and Wales, but it includes all courses which are designated by the Department of Education and Science for mandatory award purposes, and conditions of eligibility for entitlements are similar. SED also offers students' allowances for courses in social work, professions supplementary to medicine, adult education and certain other courses for which in England and Wales support is offered on a discretionary basis by local education authorities or other award-making bodies. Limited numbers of postgraduate students' allowances are also available from the Department.

13. A significant recent difference in the Scottish arrangements is that main rates of maintenance grant are slightly lower than in England and Wales, but students may claim repayment of essential travelling expenses in excess of £50 per annum. For those living in the parental home the grant is £1365; the grant for students living elsewhere (outside London) is £1775 and for those at an educational establishment in London £2110. The features of the mandatory awards scheme in England and Wales which are described in paragraphs 5 to 11 above apply equally to the SED Students' Allowances Scheme, with the single exception that the maximum contribution towards the grant (paragraph 10) extends to travelling expenses.

*Footnote: All rates quoted are for the 1985-86 academic year.

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ANNEX B

TABLE 1

STUDENT LOAN SCHEME EXEMPLIFICATIONS

EXPENDITURE EFFECTS £M (1985/86 PRICES) ENGLAND AND WALES

OPTIONS	Take-up rates	Years 1	2	3	5	7	10	15	20	Steady State
BASIC SCHEME - Interest free loan available up to 100% of assessed maintenance; loan debt revalued throughout in line with inflation, subject to ceiling of 5% pa; 15 year repayment period. Parental contribution retained.										
1. Inflation 5% pa or less	100%	0	0	0	0	- 28	- 83	-193	-310	-353
	80%	-31	- 62	- 92	- 92	-115	-159	-246	-341	-375
	60%	-62	-123	-185	-185	-201	-235	-300	-371	-397
2. Inflation 10% pa	100%	0	0	0	0	- 18	- 54	-125	-201	-229
	80%	-31	- 62	- 92	- 92	-107	-135	-192	-253	-275
	60%	-62	-123	-185	-185	-195	-217	-259	-305	-322
3. 10 year repayment period. Inflation 5% pa or less.	100%	0	0	0	0	- 42	-125	-289	-341	-353
	80%	-31	- 62	- 92	- 92	-126	-192	-323	-365	-375
	60%	-62	-123	-185	-185	-210	-259	-358	-389	-397
4. Debt not revalued during years of course. Inflation 5% pa	100%	0	0	0	0	- 25	- 75	-174	-280	-319
	80%	-31	- 62	- 92	- 92	-112	-152	-231	-317	-348
	60%	-62	-123	-185	-185	-200	-230	-289	-353	-376
5. Debt not revalued during years of course, or grace and deferral periods. Inflation 5% pa	100%	0	0	0	0	- 23	- 66	-150	-239	-264
	80%	-31	- 62	- 92	- 92	-110	-145	-212	-283	-304
	60%	-62	-123	-185	-185	-198	-224	-275	-327	-343

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	Take-up rates	Years 1	2	3	5	7	10	15	20	Steady State
6. Parental contribution reduced by 5% pa beginning year 6. Inflation 5% pa or less	100%	0	0	0	0	- 2	- 20	- 75	-152	-293
	80%	-31	- 62	- 92	- 92	- 94	-108	-152	-214	-327
	60%	-62	-128	-185	-185	-186	-197	-229	-276	-361
7. Immediate parental contribution reductions of 5% pa year 1-10, stopping at 50% of present levels. Inflation 5% pa or less	100%	+ 4	+ 17	+ 38	+64	+ 59	+ 36	- 97	-245	-323
	80%	-27	- 48	- 62	- 41	- 45	- 64	-170	-288	-351
	60%	-59	-113	-162	-146	-149	-163	-243	-332	-379
8. Immediate parental contribution reductions of 10% pa years 1-10. Inflation 5% pa or less	100%	+ 8	+ 34	+ 76	+127	+146	+154	- 1	-180	-293
	80%	-24	- 34	- 31	+ 10	+ 25	+ 31	- 93	-236	-327
	60%	-56	-103	-139	-108	- 97	- 92	-185	-293	-361
9. Immediate parental contribution reductions of 10% pa years 1-5, stopping at 50% of present levels. Inflation 5% pa or less	100%	+ 8	+ 34	+ 76	+127	+ 96	+ 28	-110	-260	-323
	80%	-24	- 34	- 31	+ 10	- 16	- 70	-181	-301	-351
	60%	-56	-103	-139	-108	-127	-168	-251	-341	-379
10. 50% loan throughout. Immediate parental contribution reductions of 10% pa years 1-5, stopping at 50% of present levels (set against grant then loan). Inflation 5% pa or less	100%	+ 9	+ 34	+ 77	+128	+111	+ 74	0	- 80	-112
	80%	-10	- 4	+ 18	+ 65	+ 51	+ 22	- 37	-101	-127
	60%	-28	- 42	- 41	- 3	- 8	- 30	- 74	-122	-142
11. 50% loan initially rising by 5% pa to 100% in year 11. Immediate parental contribution reductions of 10% pa years 1-10 (set against grant then loan). Inflation 5% pa or less.	100%	+ 9	+ 34	+ 77	+127	+158	+186	+ 53	-120	-293
	80%	-10	- 7	+ 7	+ 41	+ 58	+ 63	- 50	-188	-327
	60%	-28	- 49	- 63	- 45	- 42	- 59	-153	-257	-361

Notes:

(1) In addition to the variants on the basic scheme described above, a cut-off point could be introduced so that debts were written off 20 years after the first repayment was due. This would reduce the steady state savings by some £8M pa.

(2) Take-up rates are difficult to predict and, while likely to vary between options, are unlikely ever to be 100%. The expenditure effects of 70% and 90% take-up rates can be determined by calculating the relevant mid-points between the figures shown.

ASSUMPTIONS:

The following assumptions are common to all options:

(a) The student population is a constant 380,000 and all are on 3 year courses.

(b) Loans are for new students only - continuing students carry on under existing arrangements.

(c) There is a repayment grace period until the second year after course completion.

(d) Repayment is in equal real tranches.

(e) Repayment is deferred in years when income falls below 85% of average earnings.

(f) Debts are written off on death or retirement.

(g) Ten per cent of repayments are defaulted.

(h) Administration costs are excluded.

(i) 100% of assessed maintenance is the estimated average full value award, including allowances, for 1985/86 of £1885.

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TABLE 2

REPAYMENT PROFILES: CASH TERMS*

A. LOAN = 50% MAINTENANCE

B. LOAN = 100% MAINTENANCE

REPAYMENT YEAR	A. REVALUED DEBT £	A. CASH REPAYMENT £	A. OUTSTANDING DEBT £	B. REVALUED DEBT £	B. CASH REPAYMENT £	B. OUTSTANDING DEBT £
(3 study	991		991	1979		1979
years)	2080		2080	4156		4156
	3277		3277	6546		6546
(Grace	3440		3440	6874		6874
period)	3613		3613	7217		7217
1	3793	253	3541	7578	505	7073
2	3718	265	3452	7427	530	6896
3	3625	279	3346	7241	557	6684
4	3514	292	3221	7018	585	6433
5	3382	307	3075	6755	614	6141
6	3229	322	2907	6448	645	5803
7	3052	339	2714	6093	677	5416
8	2849	355	2494	5687	711	4976
9	2618	373	2245	5225	746	4479
10	2358	392	1966	4703	784	3919
11	2064	411	1652	4115	823	3292
12	1735	432	1303	3456	864	2592
13	1368	454	915	2722	907	1815
14	960	476	484	1905	953	953
15	508	508	0	1000	1000	0

Notes:

A. At 1985/86 prices the loan would be £943 pa for 3 years, and the real terms repayments would remain the same at £188 pa

B. At 1985/86 prices the loan would be £1885 pa for 3 years, and the real terms repayment would remain constant at £377 pa

*assuming 5% pa inflation (higher inflation would not affect these cash profiles if the 5% pa ceiling on debt revaluation were applied, and would have the effect of reducing the outstanding debt in real terms).

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TABLE 3

GRADUATE EARNINGS

Age	Graduates £pa
20-24	7400
25-29	9800
30-39	13200
40-49	16100
50-59	16000
All ages (20-69)	13100

(1) Average figures are given, uprated to 1985 levels from the 1980-1982 General Household Surveys (the latest available data). They are for graduates in both full and part-time work.

(2) A student taking out a 100% loan of £1885 pa for 3 years would accumulate a debt of £5655, to be repaid in equal instalments over 15 years amounting to £377 pa (at 1985/86 prices).

(3) The average earnings of all full-time workers on adult rates of pay is at present estimated to be some £9000 pa. The costings shown in Table I assume that loan repayments would be deferred in years when graduates were on incomes below 85% of this figure (ie about £7500 pa or less). The effect of this is assumed to be that only some 50% of graduates would begin to repay their loans immediately after the 2 year grace period following completion of their course.

EDUCATION: Student Loans
3/89

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OK

MINUTES OF A MEETING HELD AT HM TREASURY ON THURSDAY 13 JUNE 1985 AT 8.45 AM.

Prime Minister (2)
For information
MEA 17/6

PRESENT

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

Rt Hon George Younger MP
Secretary of State for Scotland

Rt Hon Douglas Hurd MP
Secretary of State for Northern Ireland

Lord Young
Minister Without Portfolio

Mr Peter Morrison MP
Minister of State, Department of Employment

Rt Hon Sir Keith Joseph BT MP
Secretary of State for Education and Science

Rt Hon Nicholas Edwards MP
Secretary of State for Wales

Rt Hon John Wakeham MP
Government Chief Whip

Rt Hon Peter Rees MP
Chief Secretary

Mr Tony Newton MP
Minister of State, DHSS

OFFICIALS PRESENT

Mr Burr (Treasury)
Mr Corlett (Inland Revenue)
Mr Bird)
Mr N Thompson)
Mr Lewis) DES
Miss Gilbey)
Miss Hodkinson)

Mr M Evans (Welsh Office)
Mr Magee (Lord Young's Office)
Mr Dewsbury (DE)
Mr Scott (NIO)
Mr Letwin (No 10)

SUBJECT

Review of student Support

1. The Meeting considered letters of 10 May and 7 June to the CHANCELLOR OF THE EXCHEQUER from the SECRETARY OF STATE FOR EDUCATION AND SCIENCE.

2. THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE asked his colleagues' views on the ultimate objective of this exercise and the best way to achieve that objective. He favoured the introduction of student loans: this would lead to significant savings in public expenditure, produce a better balance of financial responsibility between the student and the taxpayer, and also help to increase students' motivation.

3. THE CHANCELLOR OF THE EXCHEQUER also favoured a loans scheme. He believed that the climate of opinion had changed and that a loans scheme could now be defended on grounds both of equity (as between the minority going into higher education and the majority who did not have this privilege) and by international comparisons. He did however believe that a more attractive loans scheme was necessary than that exemplified in the paper. He wished to suggest interest-free loans with repayments indexed but with a 5% annual limit on that indexation. He did not agree with the proposal eventually to abolish parental contributions. Firstly, this gave away hard fought ground that had been gained in recent years in the battle to control public expenditure; and secondly, it would be particularly beneficial to richer families and therefore exacerbate the presentational problems in defending a loans scheme which would be seen as discriminating against poorer families.

4. THE SECRETARY OF STATE FOR SCOTLAND thought that any proposal to introduce loans would be very damaging politically. He was concerned about the burden that it would place on a young graduat starting his career and about to take on family responsibilities; he was also concerned about the effect that it might have on women graduates wishing to raise families. Though the scheme might allow the deferment of repayments in years of low or no earnings, there would still be a large debt hanging over these young people's heads. He wanted to see precise calculations of

the likely repayments that graduates would face and the incomes that they would be likely to have from which to make those repayments. He was also concerned at the disproportionate effect that a loans scheme would have in Scotland, where students were on four year rather than three year higher education courses.

5. THE SECRETARY OF STATE FOR WALES was not against a loans scheme but considered it very important that the Government should get both the timing and the presentation of such an option absolutely right. With a consultation period and decisions being taken in the run-up to an election but no implementation this Parliament, the Government should ask whether they would not be incurring a great deal of political damage for no real gain. Reminded by Sir Keith Joseph of the Government's commitment to produce a consultative document by the end of July, THE SECRETARY OF STATE FOR WALES thought that the paper should be redrafted in a more concise form and should omit some of the most extreme options likely to incur great hostility from certain interest groups: for example, the option of scholarships and bursaries, which could be interpreted as discriminating against certain classes of the population or subject disciplines.

6. THE SECRETARY OF STATE FOR NORTHERN IRELAND believed that the public tide had turned in favour of loans. The international argument was strong. He thought however that it would be very hard to introduce the change particularly since it would be seen to discourage poorer families; this was a very sensitive issue in Northern Ireland. He believed that it was essential to ameliorate the difficulties faced by parents in making their expected contribution. The parental contribution system was wide open to abuse, and unless the Green Paper dealt with that issue it would be considered by the public to be inadequate. Even if the complete abolition of the parental contribution was not a possibility, there should at least be some improvement over the present position.

7. THE GOVERNMENT CHIEF WHIP said that there was no great demand in the House of Commons for radical changes in the student support system but he believed that it was right that the Government should at least argue the case for loans.

8. THE MINISTER WITHOUT PORTFOLIO believed it important that the Green Paper should make the moral case for loans. Students were a privileged minority who received a very heavy state subsidy towards their studies. If Mr Lawson's idea of an interest free loan scheme were to be adopted, it would have to be funded by the public sector rather than the banks, though it might be possible to privatise the administration of the scheme.

9. THE MINISTER OF STATE, DEPARTMENT OF EMPLOYMENT thought it right to publish the consultative document quickly. He accepted that there were political risks associated with a loans option but believed that it must feature in the document. He was generally in favour of such an option but thought that the Green Paper should allow a line of retreat.

10. THE MINISTER OF STATE, DHSS said that he and Mr Fowler shared the generally expressed concern about the political implications of loans. He supported Mr Hurd in saying that the political difficulties would be increased if nothing could be done to improve the position on parental contributions, which were a source of growing resentment. He wanted whatever system was finally introduced to cover the full calendar year and thus remove students' entitlement to supplementary and/or housing benefits. He was cautious about the idea of encouraging a gap between school and higher education; students might simply claim benefit during that year.

11. THE CHANCELLOR OF THE EXCHEQUER, in noting his colleagues' concern about parental contributions, was willing to consider an option that gave some improvement in this area but stopped short of abolition. He would not however wish any improvement to come

into effect until loans were being repaid and public expenditure savings were therefore beginning to be made. He did not wish to rule out for all time the possibility of parents and/or students contributing towards tuition fees, but he agreed that this option should be shut off for the present in order not to add to the political difficulties of introducing a loans scheme.

12. THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE, summing up the discussion, recognised his colleagues' general support for a loans scheme but also their concern about the possible political damage if not sensitively designed and presented. He offered to revise and slightly shorten his paper, circulating it to colleagues in time to allow a further discussion in about two weeks' time. The paper would display and cost the Chancellor's option and offer suggestions for improving the position on parental contributions in a way that stopped short of abolition. He would also consider whether, and if so how, students from the lower socio-economic groups might be protected in order to minimise any disincentive on their part to take a higher education course.

13. Ministers present invited THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE to proceed accordingly.

Distribution

Those present
PS/No 10
PS/Lord Chancellor
PS/Secretary of State for Trade & Industry
PS/Secretary of State for Social Services
PS/Secretary of State for the Environment
PS/Secretary of State for Employment
PS/Secretary to the Cabinet

NAPM
AT
11/6

cc JR.

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01-233 6106 (Direct Line)

From The Secretary of State for Wales

THE RT HON NICHOLAS EDWARDS MP

10th June 1985

Dear Tom

TRAINING LOANS

I have seen your letter of 8 May to the Chancellor of the Exchequer about Training Loans and I am content with the general changes that you now wish to make to the scheme in the light of your consultations. The guaranteed portfolio whilst overcoming the problems that individual loan guarantees create will I am sure provide an acceptable financial framework for the banks to participate fully in the scheme.

I am grateful for your offer of a Pilot project in Wales and would suggest that Cardiff should be the location. In Welsh terms this is a relatively buoyant and self-contained labour market area with good banking facilities including the Commercial Bank of Wales. Of course your officials will need to do a lot of preparatory groundwork in these Pilot areas and I would therefore be quite content to see the Welsh Pilot launched a little later than the others should this prove necessary.

I am copying this letter to the Prime Minister, and to members of E(A), to the Secretary of State for Education and Science and to Sir Robert Armstrong.

Yours ever

Nick

The Rt Hon Tom King
Secretary of State for Employment
Caxton House
LONDON SW1

EDUCATION: Student Loans: Mar 81.

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NDPM

AT 3/6

CCOK

DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Education and Science
Department of Education and Science
Elizabeth House
York Road
LONDON
SE1 7PH

3 June 1985

D Keith.

REVIEW OF STUDENT SUPPORT

Thank you for sending me a copy of your letter of 10 May to Nigel Lawson. The review provides an opportunity not only to take a look at the various ways in which support for students could be provided but also to consider the scope for using the support system to stimulate the output of graduates in subjects of particular value to the economy. Although I doubt if I need join you at your proposed meeting, I would be grateful therefore if I could be kept in touch with developments.

2 In the meantime, I agree that it would make sense to embark fairly soon on preliminary discussions with the banks to get some feel for the type of package which they would find acceptable, as their attitude will be fundamental to the development of alternatives to the present system.

3 I think it is a pity that the paper concentrates on loans and that there is no proposal further to encourage sponsorship by industry. I remain of the view that a clear incentive to industry to support students at levels sufficiently high to disqualify from grant would have a very small public expenditure cost and substantial benefits.

4 I am copying this letter to the Prime Minister, Quintin Hailsham, George Young, Nicholas Edwards, Patrick Jenkin, Norman Fowler, Tom King, Peter Rees, Douglas Hurd, David Young and John Wakeham.

Yours ever

Norman

NORMAN TEBBIT

JH2AQR

991-1

EDUCATION: Student Loans: March 1981.

PRIME MINISTER ② AT 24/5 23 May 1985

STUDENT SUPPORT AND TRAINING LOANS

Keith Joseph has now produced a draft consultative paper on student support; he will be discussing it with various other departments before bringing it to you. Tom King is, separately, working on proposals for training loans, as commissioned by E(A).

You do not at present need to take action on either of these fronts, but - given their political significance - we thought that you might wish to be kept informed about progress.

1. Student Support

FLAG A Keith Joseph's draft consultative paper fufils the promise that he made at the time of the student grants debacle. It is a full review of student support, not just an apologia for loans. It:

- gives a short history of student finance, explaining how we have come to spend over £500m on maintenance;
- establishes the general principle that both government and the student (or his family) have reason to contribute to the cost of higher eduction, since both society and the student himself benefit;
- mentions changes that could be made in the present system, without the introduction of loans - eg a more equitable parental contribution system, special scholarships for the very clever or bursaries for the very poor.

The paper also outlines various possible loan schemes, without either favouring such schemes in principal or choosing between the options.

Some of the options are ingenious and politically sophisticated. The most attractive is probably the last, which:

Option D on page 17 of Flag A

a. leaves all students half of their present grant in the first year, replacing the other half by a loan;

b. gradually increases the proportion of loan (at 5% of the total each year) until it fully replaces the grant;

c. at the same time, gradually reduces the parental contribution (by 10% each year), so that it is phased out over 10 years;

d. allows repayments to be made over 15 years in equal real tranches, with a repayment holiday until two years after the end of the course, and <u>with no repayment in any year when the student's income falls below 85% of average earnings</u>;

e. despite these conditions and concessions, offers the prospect of eventual saving of over £400m p.a., but with modest increases in the early years.

In short, the draft paper is a good first try. But with the present climate of demoralisation in the university world (following the publication of the Green Paper on HE), the politics will be difficult. The details, both of the loan options and of the rest of the paper, will therefore need to be considered very carefully.

We recommend that you should wait until Ministers have had a chance to refine the drafting before you call a meeting on this subject.

2. Training Loans

FLAG B. Tom King's proposal to introduce training loans is far less controversial, since it is an addition to present provision, rather than a replacement for grants. The scheme that his officials are proposing is sensible and cunning.

Trainees would be required to find 20% of the cost of their course by themselves. They would receive a loan for the remaining 80% but would pay no interest on this until three months after the completion of their training. The banks would lend them the money. And the government would: (1) pay the interest on the loan during the time when the student was taking the course, and (2) refund the banks for bad debts up to a set percentage (eg 10%) of their total portfolio.

This system would provide the banks with an incentive to lend money to trainees who might not otherwise qualify for loans, but would also give the banks a reason for chasing up debts, since they themselves would be responsible if more than 10% of their debtors defaulted. The government would be liable for a maximum of about £10m at any given time, and this would generate £36m worth of new training opportunities.

This package, like the review of student support, is now being discussed between the various departments, including the Treasury. DES have expressed fears that even a moderated guarantee scheme of this sort might prejudice future negotiations with the banks on student loans. But we do not regard this as a serious objection, since the two projects are quite different in scale and consequently in risk. Indeed, the introduction of training loans on the model proposed would, if anything, facilitate the subsequent introduction of student loans, since it might make the idea appear more sensible and would give the banks more experience of this type of finance.

The Treasury has various detailed comments, but the Chief Secretary has signified his willingness for negotiations with the banks to proceed.

We recommend that you should await the outcome of these negotiations, and then consider training loans, (possibly at the same time as the review of student support) in a future meeting of E(A).

OLIVER LETWIN

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SP

B/F with full response

CC NO

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury
Parliament Street
SW1P 3AG

10 May 1985

Dear Nigel,

REVIEW OF STUDENT SUPPORT

Pt 4 attached - at flag

Following the correspondence between Ministers initiated by my letter to you of 21 December last, officials of our and other Departments have, as you know, been working on the preparation of the Consultative Paper needed to launch the Review of Student Support. They have been conscious, in tackling this, of the strong hope which I at least cherish, that the review process may lead eventually to the introduction of a loans element into the system of student support. The draft of the paper which I now send you reflects this thrust.

2. However, officials are representing that the Ministerial commitment to a move towards loans is rather too unclear at the moment for work on the paper to be taken usefully much further. I feel it right myself to ask some of my colleagues most closely concerned with this issue now to join me in seeking to settle just how we do want to take the business forward. My agenda for discussion would include

- First of all, where eventually we want to end up;

- Through what stages and on what timetable we might get there;

- Moving to the Consultative Paper, how it should be shaped to support this aim (bearing in mind at the same time public expectations of its style and our possible need for fallback positions);

- How clearly and exclusively we might put forward a particular loans package;

- Do we go firmly for loans schemes run by the banks? If so, what can the Treasury do to ensure that we reach the position of being able to do that?

Continued......

Education, Gen Policy Pt 5.

- Presentation of the matters of principle explored in Section II.

3. However we decide to proceed, I believe that it is important to make early progress in sounding out the banks on their likely response to an invitation to participate in a loan scheme. As I said in my letter of 21 December last, there is a particular problem about the participation of banks in a scheme in which every student has a right to a loan, whatever his financial prospects and circumstances, and in which some concessionary terms will have to be included. On the last occasion when we approached the banks - in December 1980 - they made it plain that a fairly comprehensive Government guarantee and commercial rates of interest would be essential requirements for them. No doubt these points would be negotiable - in particular the level and cover of any guarantee, since we need to be sure that the banks are left with an incentive to pursue defaulters. At any rate we need to get some indication now of their current thinking before we can sensibly discuss a bank-run scheme in the consultative paper. Our officials have been in touch over this, and I hope that you can now authorise an early approach to the banks.

4. Would you and/or Peter Rees be prepared to join me soon for a meeting? Would George Younger and David Young be interested too, and perhaps a Minister from each of DHSS and DE? In addition to Peter Rees, George Younger, David Young, Norman Fowler and Tom King, I am copying this also to the Prime Minister, Quintin Hailsham, Douglas Hurd, Nicholas Edwards, Patrick Jenkin, Norman Tebbit and John Wakeham (but not at this stage generally to H Committee). Any of these copy recipients would also be welcome to attend the proposed meeting.

Yours ever,

Keith.

CONFIDENTIAL

DRAFT
8.5.85

3

REVIEW OF STUDENT SUPPORT - CONSULTATIVE PAPER

INTRODUCTION

1. The Secretary of State for Education and Science announced on 5 December 1984 that the Government proposed to consider - and consult widely about - whether a radical change in the student support system, which might include loans, should be made so as better to meet the needs of students and their families whilst safeguarding the interests of the taxpayer. The terms of reference of the review are to examine financial support for students in higher education, concentrating on support at first degree and sub-degree levels.

SECTION I

THE EXISTING SYSTEM

2. The present arrangements for providing financial support for students undertaking higher education had their origins in the report of the Anderson Committee of 1960. Its principal recommendations were implemented in 1962 following the enactment of legislation which still underpins the system of student awards today. The main principles which the Committee advocated were:

- equality of opportunity of access to higher education;

- freedom of choice of institution and course (subject to an offer of admission);

- the availability of grants for the full period of any designated course.

The introduction of loans was considered but rejected by the Committee.

3. The Anderson Report prepared the way for the expansion of higher education recommended by the Robbins Committee in 1963, and the adoption of the principle that "courses of higher education should be available for all those who are qualified by ability and attainment to pursue them and who wish to do so".

4. These two reports set the scene for the massive expansion in the number of students entering higher education which accelerated in the 1960s and which has continued to the present time. A combination of demographic factors and increased opportunities to participate in higher education has led to a threefold increase in the number of award-holders between 1962 and 1983/84, and to a similar increase in the real level of public expenditure on student maintenance grants. There are now about 450,000 mandatory award-holders, and public expenditure on their maintenance is expected to total some £530M in 1985/6*. This excludes additional payments to students or their families through social benefits (around £130M) and tax concessions accruing through deeds of covenant (about £70M). There is, of course, in addition a much larger subsidy still which is given through the provision of free tuition: at an average annual cost of tuition in the region of £3500 per student, this is currently in excess of £1,500M per year. Even so, this massive expenditure on higher education is concentrated on only 1 person in 7 in the 18-21 age group in England and Wales (1 in 5 in Scotland).

5. Under the present arrangements students on advanced courses who have been ordinarily resident in the UK for the three years before their course are eligible for mandatory awards. In England and Wales these awards are administered by local education authorities and in Scotland by the Scottish Education Department. Although the Scottish arrangements cover a slightly larger number of courses, it has been the policy of successive Governments to maintain parity of treatment for students on both sides of the border so far as main rates of grant and parental contribution scales are concerned. A fuller description of the present awards system is in Annex A.

6. The essential features of the present system have remained unchanged since 1962, except that contributions from families to the payment of tuition fees ended in 1977. In particular, student support has been oriented almost exclusively towards a system of higher education which is based on full-time degree or degree equivalent study from the age of 18 (17 or 18 in Scotland). There has been some widening in the scope of courses which entitle students to an award, such as the extension to Higher National Diploma and DipHE courses

*All figures are for GB, unless otherwise stated.

in 1975. Nevertheless, there are large numbers of advanced courses which do not at present carry an entitlement to mandatory awards.

7. This pattern of support is increasingly being questioned. More emphasis is now being placed on continuing education (see Section 4 of the Green Paper on Higher Education*); and greater opportunity and flexibility are being sought in methods of study. There is growing support among educators and certain categories of students for a greater use of modular courses, interspersed with work experience. The development of distance learning since 1962 is another factor pointing to the need for more diversity in the route and modes of entry to higher education, as also has been the wider range of qualifications available. The evolution of higher education in the years ahead may be expected to develop further along these lines. The present awards system, which was designed for the needs of the 1960s, may in some respects require adaptation, if it is not to be an obstacle to securing desirable change.

8. There have also been significant changes in social mores since the 1960s, which highlight the case for reform. As long ago as 1960 the majority of the Anderson Committee recommended the abolition of the parental contribution, but this was not accepted by the Government of the day. Since then the age of adult responsibility has been reduced from 21 to 18; and social and financial independence are now expected by young people at an earlier stage than in the past. In consequence the requirement in the present system of awards that students should be financially dependent on their parents until the age of 25 is increasingly being criticised. This criticism has focussed on the concept of a parental contribution towards the cost of a student child's higher education, according to their means. It is argued that parents ought not to have to pay towards the education of young adults who have left school. The parental contribution system does not place a legally enforceable requirement on parents, and the refusal or alleged inability of some parents to pay the assessed amounts has adverse consequences for their student children. The present system also enables some parents to exercise considerable skill in order to avoid their liabilities by reducing their assessable income to a minimum.

*"Proposals for the Development of Higher Education into the 1990s"

9. The escalating cost of awards has, however, progressively made changes to the awards system of a radical nature difficult to contemplate. Abolition of the parental contribution, for example, would today cost an additional £280M, and reduction in the age of independence from 25 to 21 would cost £75M. Moreover, the public expenditure pressures in recent years have made it difficult to maintain the real value of the grant year by year.

10. Students are eligible to claim social benefits, particularly in the long vacations which the mandatory award is not designed to cover. Student claims for supplementary benefit and housing benefit have risen sharply since the 1960s and up to perhaps one half of all students are claiming housing benefit and supplementary benefit during part of the year. The Government believes that it is right in principle to aim in the long term to remove students from the benefit system, and to make support available for those in need throughout the year under the awards system.

11. For all these reasons, the time is ripe to examine from first principles the arrangements for supporting students entering higher education, both in the context of higher education policy and recent developments, but also in terms of what the country can afford.

SECTION II

UNDERLYING PRINCIPLES

12. Higher education may be regarded as an investment in the future, both for the individual student and for the community at large. The national life and the national economy stand to benefit from the contribution that suitably qualified students can make; indeed the Government believes (see the Green Paper on Higher Education) that it is vital for our higher education system to contribute more effectively to the improvement of the performance of the economy. But the individual also stands to benefit from higher education both in tangible ways - through the ability of most graduates to command higher earnings in later life - and also (less tangibly) through the opportunity to broaden horizons and through an added enrichment of life.

13. One way in which the awards system could be directed more closely to the economic needs of the country is to build in incentives for students wishing to study subjects yielding particular benefit to the

economy. If we are to compete successfully in international markets, we need (among others) more qualified scientists, engineers and technologists. These are subject areas which offer greater scope for sponsorship by employers, but the case for some Government intervention also through a bursaries scheme is considered below. At the same time, an awards system should have due regard to other subjects, for example in the humanities, which less clearly assist directly in the country's economic performance but are an essential ingredient in a civilised society. Deserving students qualified to pursue these subjects should not be left unsupported.

14. More generally, the question needs to be addressed whether the cost of higher education is fairly distributed between the taxpayer on the one hand and the student (and his family) on the other. Under the present system it may be thought that students who can benefit from higher education are still a very privileged minority (see paragraph 4 above), many of whom are on the way to high earnings. Higher earnings lead to higher taxes, but these cannot be counted as a repayment of student support, since the same rates of tax apply to non-graduate higher earners. Overall it remains true that the main economic benefits of higher education accrue to graduates rather than to other taxpayers. One means of measuring the contribution of higher education to the economy as a whole is the social rate of return of first degrees which, on the basis of certain assumptions*, has in recent years been in the region of 5 to 8%. The private rate of return of higher education to the student is considerably higher than the social rate, even allowing for graduates' generally higher tax payments. This is to be expected when the average direct contribution of the student and his family towards the student's higher education is only some 10% of the total expenditure in maintenance and tuition costs. As the HE Green Paper acknowledges, however, it will be necessary for the Government to use money from the taxpayer to continue to meet the greater share of the cost of higher education. Even so, there are ways in which the burden could be more fairly redistributed, taking account of the benefits from higher education that accrue to the individual as well as to society. The introduction of loans is one obvious option, but other possibilities are also considered in the sections which follow.

*Chapter 3.10 of the White Paper on Public Expenditure, 1985

SECTION III

POSSIBLE CHANGES TO THE EXISTING SYSTEM

15. Without embarking on large reforms of student support, there may be some scope for redeploying resources within its general framework. As noted in Section I, the parental contribution system has been the subject of some criticism. But it does at least provide a means of relieving the taxpayer of, and shielding the student from, a greater share of the cost of higher education. If the parental contribution is to remain, there are ways in which the scale of contributions could be adjusted to make it more progressive, thus requiring families with the highest incomes to contribute more to the benefit of students from the least well off families. Another option is to extend the parental contribution into fees (if payment of fees is not to be subsumed in the general funding of institutions*) so that some easement of the burden on middle income families could be achieved. Abolition of the parental contribution altogether - at nil cost to public expenditure - would result in a reduction in the level of the maximum grant to around 80% of the present home rate for all students. This would still be above current supplementary benefit levels.

16. There are two administrative changes which might be made to improve the parental contribution system, if it is to remain. First, parental income could be assessed on the basis of gross income, rather than "residual" income. This would simplify administration, since complicated assessments could be dispensed with. It might also be thought to provide a more equitable basis of assessment, since those parents already enjoying tax relief, eg mortgage payers, would no longer derive a double benefit by virtue of the residual income assessment. Secondly, parental contributions could in theory be recovered via the tax system, thus protecting those students whose parents are unwilling to make up the full parental contribution and ensuring that the full grant is paid to all students - although at the expense of objections from parents who refuse on

*See recommendation in the Jarratt Report (Report of the Steering Committee for Efficiency Studies in Universities, March 1985).

principle to support their children's higher education and who would no longer have any choice in the matter. Recovery from parents could be either on the basis of a flat-rate or "student tax", or it could be related to the assessment made for individual parents each year. Use of the tax system could, however, present Inland Revenue with considerable operational difficulties, particularly if individual assessments were to be involved.

17. Another area in which some adjustment could be made is in the length of courses for which mandatory awards would be available. The Green Paper on Higher Education (Section 6) refers to the Government's concern at the extra costs of first degree courses outside Scotland which last for longer than three years. This trend could be halted by limiting the scope of mandatory awards to courses with a general educational content, up to a maximum of three (or even two) years. This would leave those wishing to study purely vocational subjects to look to sponsors and potential employers, or to discretionary awards, for support. Subjects such as medicine and architecture, which comprise both general educational and vocational elements, could be supported by mandatory awards up to the point where the vocational training began. Thereafter sponsoring employers (including the Government itself in some cases) would step in. And subjects, whether vocational or not, which are regarded as of high priority in the national interest, would qualify for bursaries or other specific Government support although there are difficulties about this (see paragraph 23). Any savings from such a change could be redeployed for other awards purposes, for example in extending entitlement to students on mixed mode or other types of course for which awards are not currently available.

18. As noted in Section I, the Government believes that it is right in principle to remove students from entitlement to State benefits.* Steps are already being taken to reduce the entitlement of students to supplementary and housing benefits in term-time and during the short vacations. To carry this process further into the long vacation would require a more fundamental extension

*Reference to DHSS Green Paper.

of the awards system which at present does not provide support for the long vacations nor any machinery for the assessment of students' means during that period. Moreover, any withdrawal of benefits from those in real need would have to be made good by other means, such as a hardship scheme, possibly involving loans. These questions will need to be addressed when options for change in student support are examined.

19. Another aspect of benefit support which will need to be reviewed is the present dual system of supporting the dependants of students. Currently only the dependants of students defined as "independent" and married before their course can be supported under the main awards regulations. All other dependants are supported under a hardship scheme administered by DHSS on behalf of DES under regulations made specifically for the purpose. There is clearly a case on administrative grounds for simplifying this in line with other possible changes discussed in the previous paragraph.

20. The existing awards system or any new scheme of support which is introduced could incorporate features designed to encourage trends which are considered to be desirable. For example, if it is thought that students should be encouraged to take time off between leaving school and entering higher education, the level of support could be reduced or even be suspended in the case of those who had been out of school for less than a year. Equally, if it is thought necessary to encourage students to study from home, the level of the grant or other support available could be based on the present home rate. However, such measures would need to be applied flexibly if students' ability to choose when and where to study is not to be unduly impeded. Nor should they encourage students to rely more heavily on state benefits, thus running counter to the Government's general aim of removing students from benefits.

21. There are some more radical changes which might be contemplated in order to promote the Government's general objectives.

(a) <u>Scholarships and Bursaries</u>

22. The principle underlying the present system is that all those who are suitably qualified and who have been offered a place on a designated course should receive a grant <u>as of right</u>. There may be a case however for introducing more selectivity into the awards system through scholarships or bursaries, or both. <u>Scholarships</u> would be awarded on merit, perhaps on the basis of A levels (or, in Scotland, SCE Highers), or BTEC (or SCOTVEC) qualifications.

This raises questions whether candidates would need to take special A level papers or the equivalent, and in what subjects, or otherwise on what basis they should be selected. Those who met the entry qualifications of the institution but did not win a scholarship would receive free tuition, but would have to meet the full cost of supporting themselves (unless a general loan scheme provided or assisted with this - see Section IV). Alternatively the scholarship could be a supplement on a small financial scale to any general support available under the system, or it could be applied as a waiver of debt under any loan scheme.

23. Another approach would be to restrict student support to specific subjects which would be designated in the light of national needs. These might be described as bursaries. Students not qualifying for a bursary would have to support themselves; or - as with scholarships - the bursary could alternatively be supplementary to the general support arrangements. As noted in Section II, bursaries would enable public support to be more closely directed to those subjects which would yield tangible benefits to the economy, such as in the areas of science, engineering and technology. However it could be difficult to achieve general acceptance for those subjects deemed to be of national value; and the task of administering such a scheme would pose problems. A bursary scheme should not be a substitute for support provided by sponsors or potential employers, but rather would be supplementary or complementary to it.

24. Both scholarships and bursaries would require more administration. In the case of scholarships, this could be done centrally, or alternatively it could be delegated to the institutions of higher education who might be given an allocation from which scholarships could be awarded on merit. In the case of bursaries, the Government would specify from time to time those subject areas for which bursaries would be available, and they could be administered in the normal way by the award-making bodies. In that case care would be needed to ensure that the subject areas were sufficiently clearly described to avoid overlapping and ambiguities: this might prove to be a difficult task.

(b) Higher Education Tax

25. One approach which has been advocated in the past envisages the recovery of the student's contribution towards the cost of his higher education through a Higher Education tax (sometimes called a "graduate tax"). Every student would receive a flat rate grant covering maintenance, and the cost would be

recouped by a proportional tax levied through Inland Revenue on subsequent earnings. There would be a flat rate cost for each subject to avoid any bias against longer courses, although the taxable cost for subjects designated as being in the national interest could be set at a lower level. Those with low or no earnings over the requisite repayment period would pay less than the better off, or nothing at all. Alternatively grants could be made available in blocks which could be taken up according to the student's means and at his discretion. Each block would attract a cumulatively higher rate of tax, which could be for life or for a fixed period.

26. The main advantages of this approach would lie in equity, since payment for higher education would be determined by future success, and in the removal of the dependence on parents - although it would be open to parents to finance the cost of their children's higher education as an alternative to drawing on the grant. Use of the Inland Revenue for recovery of the tax would pose the same operational problems which are noted in paragraph 17 above. If these could be overcome, however, the scheme would make recovery of contributions easier and would reduce the default rate. The drawbacks in the scheme itself would lie in the scope for avoidance and evasion of the HE tax - for example by artificially depressed earnings or even through emigration or a brain drain. It is uncertain what would be the psychological impact of an earnings related tax on the will to succeed, although this factor already exists in a progressive tax system.

SECTION IV

LOANS

27. The most widely canvassed alternative to the present system is one involving loans in whole or in part. Many believe that a personal investment by a student in his or her higher education through loans would be a timely innovation. The introduction of a loans scheme could be held to be justified by the logic in Section II; could lead to greater student independence and attention to choice of study; and could help to overcome some of the difficulties in the existing system mentioned in Section I. In more detail, the justification for loans could be stated as follows:

(a) <u>Equity</u> - the majority of taxpayers do not enjoy higher education or the lifelong advantages it can bring. To consider only the tangible benefits, it can lead to better salaries, conditions of work and choice of occupation. Although higher earners pay more in tax than others, not all of these are graduates. And it is nevertheless true that, overall, there is a net flow of resources from non-graduate taxpayers to those who have benefited from higher education. Loans could go some way to equalising the burden of student support. They could also serve as a substitute in suitable cases for the benefits on which many students currently rely.

(b) Simplicity - the present grant system is extremely complex. This is partly because of the need to ensure consistency of treatment of students by over 100 local education authorities responsible for its administration and partly because, for reasons of justice and proper use of resources, each individual's grant must meet but not exceed his or her needs. In a loan system it might be possible to dispense with much of this fine tuning. Simplicity would also be greatly increased by the abolition of the parental contribution to the award, which is complex and time-consuming to administer.

(c) Independence - the parental contribution to the grant is widely resented for prolonging the dependence of students on their families beyond the legal age of majority. The savings that would accrue from introduction of a loan scheme represent the only practical way of working towards gradual reduction or abolition of the parental contribution system.

(d) Choice - the present system contains no incentive to students to look carefully at higher education opportunities in considering what will offer them the best available personal and career opportunities. The introduction of loans could be beneficial in encouraging students to take more care in deciding whether they want to go into higher education. It could also influence choice of subject and institution, and encourage a greater degree of commitment by students to their studies. This in turn could help to increase the standards and variety of provision offered by the institutions themselves.

28. Replacing the present grant system, wholly or partly, by a loan scheme should produce substantial net savings in the medium to long term. Some of these could enable the Government to find the necessary resources with which it could progressively make desirable reforms, including extending mandatory support to other groups in higher education. The amounts and timing of savings

would of course depend on the terms of repayment, any concessions offered to particular groups, the incidence of default, and administrative costs. In the short-term there would certainly be no reduction in cost and possibly a significant increase, for example if there were no parental contribution to loans as there is at present to grants.

29. Loans have already proved a practical proposition elsewhere. Indeed the UK system of student support, being based entirely on grants, is virtually unique in the western world. Although there is a great diversity of systems elsewhere, most countries support students through loans to a greater or lesser extent. West Germany switched in 1983 from a part loan/part grant-based system of student support to one based predominantly on 100% interest-free loans administered by the Federal Government. In Sweden, the small basic grant received by all students is supplemented by a loan, which now amounts to 90% of the total award. The complicated Federal and State arrangements for student support in the USA also give prominence to loans, with limited value grants available for the most needy. Caution is necessary in making international comparisons, since the interaction of the higher education, student support, social benefits and tax systems varies from country to country. But there is much in the experience of these countries that should encourage us to look to loans as a possible way forward in the UK.

30. The case for loans is not unanswerable. There is concern that loans might discourage potential students from participating in higher education at all. Some point to the social implications of the burden of debt and to the sheer impossibility of repayment for women raising families and for those on low incomes. They believe that there will be great administrative difficulties and costs as a result of a loan scheme. These points are considered below in more detail.

31. Participation - A consequence of giving students, through the introduction of loans, more incentive to consider carefully the costs and benefits of higher education might be that some would conclude that it was no longer worthwhile. Others might simply be deterred by the responsibility of servicing a loan. Some of these effects would no doubt be transitory and would decline as loans became accepted as the normal means of financing higher education. However, the effects on participation of the introduction of loans simply cannot be accurately predicted. Experience from other countries serves as only a limited guide here since the introduction of loans abroad has often been linked to increases in public support available for education and has

opened up access to higher education for many for whom it would not otherwise have been available. There is also no precedent for a change from a universal system of grant as of right to one of loans or loans and grant in combination. Nevertheless, other countries do experience high participation rates. In West Germany 73% of students qualified to do so enter higher education: this is 18% of the relevant age range.* And it must be supposed that other countries are satisfied that their respective systems produce the number and type of graduates that they need. The experience of other countries also shows that many students are prepared to participate in higher education even without any grant or loan support. For example, in the USA and Canada around 50% of students receive no support. In Sweden 20% receive only the small basic grant, while under the relatively new West German scheme over 60% of students fall outside the scope of the loans scheme.

32. Repayments - The extent to which loans would produce savings in public expenditure will depend upon the level of repayments that can in fact be collected. Inevitably there will be a wilful or negligent minority of defaulters the pursuit of whom may involve disproportionate difficulty and expense. (A grant recovered by a Higher Education tax (paragraph 25) would remove this problem.) Experience of other countries provides useful lessons on how a loan scheme can be tailored so as to minimise default at acceptably low administrative cost. And there is no reason to believe that experience in the UK would be very different from that abroad, namely that the great majority of students can be expected to meet their obligations.

33. Careful thought would have to be given to setting interest rates and repayment periods at levels that were geared both to what the taxpayer could afford through Government expenditure and to the former students' ability to repay the loan. In some countries interest rates are subsidised compared with commercial levels. In West Germany no interest is charged unless there is default by the borrower; and good examination results can also reduce the amount to be repaid. Repayment periods may, however, be quite short, for example 10 years in the USA. It is difficult to gauge what the optimum

*Measures for Great Britain do not allow exact comparisons to be made; but the present qualified participation index of around 80% and age participation index of around 14% do indicate broad similarities with the position in West Germany.

levels for a UK system might be but, if repayments were to be spread over 15 years, and if no repayment were required until the second year after course completion, this might justify an unsubsidised rate of interest which could average 3% in real terms. Large burdens might prove especially hard to bear for students from poorer families, who have hitherto been heavily reliant on grants and who would not have a ready made source of subsidy to draw upon. Similarly, the position of students aiming at the less well-paid careers, and those on longer than average courses (especially in Scotland where about half of all students are on courses of four years or longer) would need to be given particular attention. Consideration would also have to be given to the modifications that might be appropriate for those on low incomes and women raising families. One option here might be to defer payments in years when income has fallen below, say, 85% of average earnings (currently £170 per week gross) . In cases of death or retirement debts could be written-off altogether.

34. Administration - A major consideration is how a loan scheme would be administered. Responsibility for making the loans, monitoring repayments, authorising deferments, recovering from defaulters and writing off debts, might lie either in the public or the private sector. There would be a welcome avoidance of public sector bureaucracy if the commercial banks, for example, were to prove willing to take on the administration of a loan scheme. It might nonetheless be necessary for the Government to finance a bank administered scheme, or to provide guarantees or subsidies in the terms of loans, in order to ensure that loans were available as of right to all students qualifying for admission to higher education, regardless of the level of commercial risk of each borrower. On the question of administration, international experience varies. In Sweden, administration of the scheme has passed from the banks to a state agency, partly because of the Government's determination to pursue bad debts and partly to maintain interest rate subsidies. This is also the case in West Germany. In the USA, however, reliance on Government agencies has been minimised through the operation of a variety of schemes administered by the banks but guaranteed and underwritten by the Government, although these have not been without their problems.

35. A feature of virtually all loan schemes is, to varying degrees, and depending on take-up rates, some additional expenditure in the short-term, in return for the prospect of significantly reduced expenditure later on. For macro-economic purposes, decisions about whether banks or the Government should administer and finance a loan scheme have no effect on the costs or savings resulting

from the scheme, in the short term or later. The real public expenditure implications of bank schemes can therefore be taken to be similar to the Public Sector Borrowing Requirement effects of identical Government-financed schemes. Proper comparisons of bank and Government schemes would, of course, depend on the exact terms on which the banks would be prepared to participate in a loan scheme.

36. The following paragraphs describe some options for the introduction of a loan scheme. The public expenditure costs and savings arising from each of the examples are set out in full in Table 1 in Annex B. The assumptions underlying the calculations are central to the assessment of the costs and savings produced by each option. In particular, the rate of interest chosen for any scheme is crucial. The options all envisage that the loans are repayable at an unsubsidised interest rate assumed to average 3% in real terms. (Higher rates in real terms would increase the longer term savings while lower rates might significantly reduce them.) Other assumptions include concessions on the payment terms so that repayments which would be spread over 15 years in equal real tranches, would not begin until two years after the end of the course and would be deferred when income fell below 85% of average earnings. Deferrals would be revalued in line with inflation and debts would be written off in cases of death or retirement. A default rate of 10% is assumed. Administration costs are excluded from the calculations, but these could increase the cost by around £5M to £10M a year in England and Wales, and a further £1M to £2M in Scotland, depending on the scheme.

37. The four options below cover the main grant/loan/parental contribution permutations which the Government believes represent a reasonable starting point for public debate on loans. In each case it is assumed that continuing students will not be affected by the introduction of loans but will carry on under the existing arrangements. For new students the level of support made available through loans or mixed grants and loans would be equal to current grant levels. The number of students qualifying for support is also assumed to be constant at the present England and Wales figure of 380,000. However, take-up rates for the loan elements of support are hard to predict and experience from abroad shows that take-up and participation are not invariably linked. In the UK it is estimated that around 80% of award-holders will receive some state contribution to maintenance in 1985/86 (the remainder will be assessed to receive a maximum parental contribution). But this is not a conclusive guide to the likely take-up of loans in the UK, and therefore Table 1 of Annex B exemplifies a spread of possible take-up rates for illustrative purposes.

Table 2 illustrates repayment rates for individual students with varying rates of interest, and Table 3 shows how higher or lower rates of interest would vary expenditure effects.

Option A

Loan available for up to 100% of assessed maintenance costs; parental contribution abolished immediately.

This option has two main advantages. First, it would have the immediate benefit for new students and their families of abolition of the parental contribution at a stroke (existing grant and parental contribution arrangements would apply to continuing students). Second, there would be significant long-term savings on current expenditure amounting to over £430M pa. However, any radical shift of this kind from present arrangements would not be without its difficulties. The effects on participation and take-up rates of a total switch from grants to loans would be most uncertain. The short-term expenditure implications if 100% of students were to avail themselves of a maximum loan would be substantial, rising to over £250M pa as early as the third year of the scheme, and declining only very slowly till savings were made in year 13. If the take-up rate were 80% the short-term costs would be up to £111M pa until the scheme's tenth year when repayments would begin to cover the cost of new loans. Only if take-up rates fell to around 60% could the problem of short-term costs be avoided.

Option B

Loan available for up to 100% of assessed maintenance costs; initially parental contribution retained but reduced by 10% each year from the present scale.

This option would lead to the same long term savings of £430M pa as Option A. Like that option, it would also involve the abolition of the parental contribution except that this would be achieved by phased reductions of 10% annually. This phased approach would result not only in lower costs and higher savings than Option A, but might also be regarded as more equitable as between new and continuing students. Parental contributions would be only 90% of present levels in year 1 reducing to 80% in year 2 and so on until complete abolition was achieved in the tenth year of the scheme. The loan element would rise each year to replace the parental contribution element foregone. However,as with Option A, any sudden shift to a 100% loan scheme must cause great difficulties in predicting participation and take-up rates under this option. A take-up rate of 100% would result in increased short-term costs of up to £140M pa and new loans would not be financed by repayments until year 14 of the scheme.

80% take-up rate, which is certainly more realistic in the circumstances, would lead to only very small short-term increases in expenditure, of less than £20M pa, and in the first few years of the scheme there would actually be small savings of around £30M pa. Lower take-up rates would also result in immediate savings ultimately increasing to over £430M.

Option C

Loan available up to 50% (with grant for the remaining 50%) of the amount of assessed maintenance costs; initially parental contribution retained on grant and loan elements but reduced by 10% each year from the present scale. This is less radical than options A and B in that 50% of the grant would be retained. It would have the great advantage that a substantial grant element would still be available to students from poorer families, thus reducing the risk of an adverse effect on participation. The parental contribution would be phased out in the same way and over the same period as described under Option B. Until abolition was complete, the contribution would be assessed against both the loan and grant elements of support. The long term savings produced by this option would amount to less than £100M pa. However there would be a rising trend of expenditure in the short-term until year 10 as a result of the phased abolition of the parental contribution, even on a low take-up figure.

Option D

Loan available for up to 50% initially (with grant for the remaining 50%) of the amount of assessed maintenance costs, with a 5% increase annually in the loan element until grant replaced by 100% loan; initially parental contribution retained but reduced by 10% each year from present scale.
The main advantages of the preceding options are combined in this option, which would:

(i) achieve the same long-term savings of over £430M per annum as options A and B;

(ii) lead to abolition of the parental contribution by year 10 of the scheme; and

(iii) lead to the gradual introduction of 100% loans by year 11, and thus avoid the worst effects on participation which an immediate switch to 100% loans scheme might bring.

The annual 5% increases in the loan element would affect all students (except those few who began courses before year 1 of the scheme who would carry on under existing arrangements). A take-up rate of 100% would lead to a pattern of short-term expenditure increases similar to option C, increasing to £168M pa in year 10, but savings would be achieved after year 15. An 80% take-up would greatly limit these short-term expenditure increases to a maximum of £40M to £50M in years 5 to 10 of the scheme. Lower take-up figures would produce significant savings in all but a few years of the scheme and any take-up of less than 70% would lead to savings throughout.

38. The Government believes that, of the options illustrated, Option D is to be preferred. It strikes a fair balance between the taxpayer and the student and his family, in reducing public expenditure over a period, at the same time as phasing out the parental contribution. Moreover, the deterrent effect on access of a switch from grants to 100% loans is cushioned by the phasing out of grant over a 10 year period.

SECTION V

CONCLUSIONS

39. This paper has argued that there is a need to re-examine our system of student support in order to measure it against developments in higher education that have taken place in recent years and which may be expected in the years ahead. Changes may also be called for in the light of the escalations in expenditure that have taken place since the system was introduced in 1962 and in the current national interest. It is the Government's view that a more rational and fairer system of supporting students should now be seriously considered; and one which places more of the financial burden on those who benefit from higher education, and less on the taxpayer at large. The introduction of loans would be one way in which greater equity could be achieved, and the Government sees considerable attractions in this approach. There are, however, other possibilities, some of which could be adopted in combination with a loan scheme. There is also the possibility of modifying the present system.

40. The Government would welcome the widest possible public debate on these propositions. In particular, it invites views on the following questions:

Sections I and II

(a) What adjustment in the burden of student maintenance should be made as between the taxpayer on the one hand and students and their families on the other?

(b) Should entitlement to mandatory support be extended to other types of courses? If so, which ones?

(c) Should students be financially less dependent on their parents? If so, is the priority a reduction in parental contributions across the board, or should any reduction be directed at achieving more independence for the 20 to 25 year olds?

Section III

(d) If the parental contribution system is to remain, what if any adjustments should be made?

(e) Equally, should either of the two administrative changes described in paragraph 16 be introduced, viz -

(i) a switch to gross income assessment and

(ii) recovery through the tax system, if workable?

(f) Should entitlement to mandatory support be based on a standard period (with exceptions)? If so, should the period for support be reduced in the case of vocational courses?

(g) If benefits are no longer to be available to students, what kind of hardship scheme (with or without loans) should be set up, and who should administer it?

(h) Should the existing arrangements for the support of students' dependants be unified? How should any new system be administered?

(i) Should students be encouraged through the support arrangements to study at a local higher education institution?

(j) Should the support arrangements encourage students to take a year off between school and entry into higher education?

(k) Should awards be applied selectively on merit as with scholarships, or according to national needs, as with bursaries? If so, how should the schemes be administered and by whom?

(l) Should the cost of student support be repayable by means of a Higher Education tax levied on the former students? If so, should the tax be assessed -

(i) individually according to actual expenditure; or

(ii) on a flat rate basis?

Section IV

(m) Should loans be introduced? If so - should they cover all, most or part of a student's needs? In the latter case, should the difference be made up with grants?

(n) Should the loan terms be subsidised heavily, moderately or not at all? In particular -

(i) should there be reductions and/or deferrals of repayments when former students are on low incomes or unemployed?

(ii) should the interest rate be unsubsidised?

(iii) should the standard repayment be 10 to 15 years, or longer?

(o) Should any loan scheme be administered and/or financed by the Government, or by the banks on acceptable terms?

(p) Taking account of public expenditure constraints, which of the options illustrated in Section IV is to be preferred?

[Note - Some of these questions will be omitted or amended when the paper is agreed.]

ANNEX A

STUDENT AWARDS: BACKGROUND

1. Mandatory awards are made to students on designated courses of AFE. These are full-time degree or degree comparable courses: DipHE courses, HND courses run by BTEC, and courses of initial teacher training. Awards for other courses - other than for certain postgraduate study - are discretionary. Each individual award-making body decides the number of such awards it can make and the rates and conditions of grant and bears the full cost itself. The remainder of this note will concern mandatory awards.

2. A student has a right to an award for only one attempt at a basic advanced qualification (irrespective of whether an award was received for that study or not) and so those who have undertaken previous advanced study are rendered ineligible. Students must also satisfy certain residence conditions to be eligible for support.

3. The award covers a student's maintenance and fees. For those resident in the parental home the basic maintenance grant is £1435. For those living outside of the parental home it is £2100 for those in London, and £1775 for those elsewhere. Those receiving free board and loding are entitled to a grant of £755. The grant is assumed to cover the Christmas and Easter vacations and 30 weeks of term-time. In addition to the basic maintenance grant, the student may also be eligible for additional maintenance. The main supplementary allowances are for extra weeks of study and for dependants.

4. The cost of maintenance is shared between the State, students and their families. Students aged 25 or over, or who have supported themselves for 3 years before the start of their course are regarded as independent of their parents for awards purposes, and their parents are not assessed to make a contribution towards their maintenance (although, if married, their spouse would be). A parental contribution is assessed for all other mandatory award holders.

5. The parental contribution is based upon the parents' residual income: the income of both parents is taken into account in its calculation. Residual income is defined as the parents' gross (taxable) income in the preceding financial year less certain deductions including those for other dependants, interest payments (including mortgage interests), superannuation, life insurance and pension scheme contributions. After residual income has been calculated, and parental contribution assessed, a further deduction is made in respect of any other dependent children of the family: £225 if the child is an award holder, or £80 otherwise.

6. A nil parental contribution is asssessed where parents' residual income is less than £7600. At £7600 a contribution of £20 is assessed; contributions are then assessed at the rate of £1 for each £7 of additional income to a residual income of £9700, at which point the scale changes to £1 in £6.

7. For the spouses of independent students the contribution is again based on residual income. No contribution is assessed on incomes below £5900. At £5900 a contribution of £10 is assessed; contributions are then assessed at £1 in £5 to a residual income of £9000, and beyond that contributions increase at the rate of £1 in every £10.

8. The student's contribution is not based on residual income. On incomes (net of tax, national insurance, child benefit and vacation earnings) beyond £400 the student is assessed to contribute pound for pound towards his grant. However, scholarship income to a limit of £1200 (or £1500 in the case of an Industrial Scholarship) is disregarded.

9. The maximum contribution towards the grant from whichever source(s) is limited to the maintenance element of the award. Fees are met in full by the State, and are not subject to parental or other contributions. They are paid direct to the college by the award-making body.

ANNEX B
TABLE 1

STUDENT LOAN SCHEMES - PRELIMINARY EXEMPLIFICATIONS

EXPENDITURE EFFECTS £M (1985/6 PRICES) ENGLAND AND WALES

	YEAR 1	2	3	5	7	10	15	STEADY STATE
OPTION A								
Loan available up to 100% of assessed maintenance costs; no parental contribution								
Take-up rates								
100%	+85	+170	+255	+255	+201	+ 93	-121	-434
80%	+37	+ 74	+111	+111	+ 68	- 18	-189	-439
60%	-11	- 21	- 32	- 32	- 64	-129	-257	-445
OPTION B								
Loan available up to 100% of assessed maintenance costs; parental contribution reduced by 10% each year from present scale								
Take-up rates								
100%	+ 8	+ 34	+ 76	+127	+138	+129	- 66	-434
80%	-24	- 34	- 31	+ 10	+ 18	+ 11	-145	-439
60%	-56	-103	-139	-108	-102	-108	-224	-445
OPTION C								
Loan available up to 50% (with grant for the remainder) of assessed maintenance costs; parental contribution (reduced by 10% each year from present scale (set against both grant and loan)								
Take-up rates								
100%	+ 9	+ 34	+ 77	+128	+157	+186	+ 86	- 90
80%	-10	- 4	+ 18	+ 65	+ 95	+128	+ 48	- 92
60%	-28	- 42	- 41	+ 3	+ 33	+ 70	+ 10	- 95
OPTION D								
Loan available up to 50% initially (with grant for the remainder) of assessed maintenance costs, with a 5% increase annually until grant replaced by 100% loan; parental contribution reduced by 10% each year from present scale (set against both grant and loan)								
Take-up rates								
100%	+ 9	+ 34	+ 77	+127	+153	+168	+ 1	-434
80%	-10	- 7	+ 7	+ 41	+ 54	+ 49	- 91	-439
60%	-28	- 49	- 63	- 45	- 45	- 69	-184	-445

NOTE:

The following assumptions are common to all schemes:

(a) The student population is a constant 380,000 and all are on 3 year courses.

(b) Loans are for new students only - continuing students carry on under existing arrangements.

(c) Loans are repayable at an unsubsidised interest rate assumed to average 3% in real terms.

(d) No repayment is required until the second year after course completion.

(e) Repayment is over 15 years in equal real tranches.

(f) Repayment is deferred in years when income falls below 85% of average earnings.

(g) Deferred payments are revalued in line with inflation.

(h) Debts are written off on death or retirement.

(i) Ten per cent of repayments are defaulted.

(j) Administration costs are excluded.

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REPAYMENT PROFILES

REPAYMENTS AS PERCENTAGE MEDIAN GRADUATE SALARIES

REPAYMENT YEAR	A. LOAN = 50% MAINTENANCE 3% FEMALE	3% MALE	0% MALE	6% MALE	B. LOAN = 100% MAINTENANCE 3% FEMALE	3% MALE	0% MALE	6% MALE
1	3.4	3.1	2.4	3.8	6.8	6.2	4.9	7.6
2	3.1	2.9	2.3	3.5	6.2	5.7	4.5	7.0
3	2.8	2.7	2.1	3.3	5.5	5.4	4.3	6.6
4	2.6	2.5	2.0	3.1	5.3	5.0	4.0	6.2
5	2.6	2.4	1.9	2.9	5.2	4.8	3.8	5.8
10	2.4	1.8	1.4	2.2	4.9	3.6	2.9	4.4
15	2.3	1.5	1.2	1.9	4.6	3.1	2.4	3.8
AVERAGE REAL TERMS DEBT AT START OF REPAYMENT PERIOD	2828	2828	2828	2828	5655	5655	5655	5655
ANNUAL REAL TERMS REPAYMENT (£)	237	237	188	291	474	474	377	582
TOTAL REAL TERMS REPAYMENT OVER 15 YEARS	3555	3555	2820	4365	7110	7110	5655	8730

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/NOTES

NOTES:

(1) The figures above are expressed in "real terms" which means that they are at 1985/86 prices and ignore the effects of inflation.

(2) The interest rates shown in "real terms" represent the extent to which actual interest rates exceed the rate of inflation. For example, an actual rate of interest of 9% would, if the inflation rate were 6%, produce a "real terms" interest rate of 3%. Because the gap between interest and inflation rates is unusually high at present real interest rates are currently higher than shown. It is more realistic, however, to base costings covering a long period on a real terms rate of 3%, which experience suggests is a good estimate of the average cost of long-term Government borrowing. This can be regarded as an unsubsidised interest rate although commercial rates might, of course, be higher.

(3) The repayments are expressed at constant 1985/6 prices. They would be made over 15 years beginning 2 years after graduation and are assumed to have the same real terms value annually throughout the life of the loan. The annual cash amounts to be repaid would, of course, be higher than those shown because of the effects of inflation on the outstanding debt and actual interest rates. For example, a student taking out a 100% loan and incurring a real terms debt of £5655 could face a cash debt of some £7550 by the time of his first year of repayment if inflation is assumed to be 6%. The cash repayment would continue to be affected by interest (a real terms interest rate of 3% is assumed) and inflation rates during the repayment period such that the total cash outlay over 15 years would be about £15,650 compared with the real terms figure shown in the table of £7,110.

(4) The calculations are based on graduates from 3 year courses earning median graduate salaries (estimated from the 1982 General Household Survey) assuming no real growth in salaries over time. Salaries vary widely around the median. Repayments will vary in proportion to course length.

TABLE 3

EFFECT ON COSTINGS OF INTEREST RATE VARIATIONS

£M 1985/6 PRICES

	real interest rate	YEAR 10	YEAR 15	STEADY STATE
OPTION A	0%	+33	+77	+141
	6%	-38	-86	-158
OPTION B	0%	+25	+65	+141
	6%	-29	-74	-158
OPTION C	0%	+14	+34	+ 71
	6%	-16	-39	- 79
OPTION D	0%	+18	+52	+141
	6%	-20	-58	-158

NOTES:

(1) The figures show the effect on the Table 1 costings for each option of varying the interest rate from the figure of 3% in real terms used in the main exemplifications. Positive figures indicate increased spending (or reduced savings) as compared with using a 3% rate and negative figures indicate reduced spending (or increased savings).

(2) All the above figures are based on 100% take-up rates. The equivalent figures for lower take-up rates would be proportionately lower.

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B/F with PM response.

SECRETARY OF STATE FOR EMPLOYMENT

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Telephone Direct Line 01-213 6400

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The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
LONDON
SW1

8 May 1985

Dear Nigel

TRAINING LOANS

The purpose of this letter is to bring you and colleagues up to date on the development of our proposals for a pilot Training Loans Scheme in the light of consultations, to outline proposed changes, and to seek agreement to my officials now negotiating a revised package with banks, with a view to starting the pilot scheme from 1st January 1986.

Last November colleagues on E(A) agreed to the issue of a consultation paper outlining a pilot scheme for training loans which proposed, subject to the outcome of consultations, to establish a pilot project costing up to £5m of Exchequer money in 1985/6. Because I had been advised that enabling legislation was required for the Government to act as guarantor, the paper proposed that the banks and Government jointly would make available £10m of loans for vocational training. In the light of responses to the consultation document and advice from the Law Officers that a guarantee scheme is after all feasible, I am now proposing a pilot scheme based on a Government guarantee with funding spread over a longer period but generating much more training than we had previously envisaged.

OUTCOME OF THE CONSULTATIONS

The response of the British Bankers' Association to the scheme in the consultative document was very negative: they expressed doubts about the market, the level of risk, the likely high cost of loans and the administrative complexity. Four of the smaller banks expressed an interest in possible participation but only as a transitional step towards a permanent guarantee scheme. None of the major clearing banks was interested. Other respondents indicated widespread support for the principle of a training loans scheme, but they also suggested that substantial changes would be necessary to make the scheme attractive to both prospective borrowers and lenders. The consultation document envisaged that a market could be created for training loans on normal commercial terms, but it is now clear that the market for training loans will not grow from its current negligible size unless Government finances some incentives to potential trainees and accepts some of the additional risks which expansion of the market would bring to the banks. A workable cost-free option does not exist and the proposals below are based on the assumptions that cost to the Exchequer is inevitable if the scheme is to succeed but that we must ensure that we get the best value for our expenditure.

PROPOSED CHANGE

The 2 major new features I am proposing are a short "repayment holiday" for trainees (so that they are not liable for interest incurred during the period of training and for up to 3 months shortly after) and a limited portfolio guarantee for the banks. The Law Officers Departments have confirmed that there are powers to operate a loan guarantee scheme under the Employment and Training Act 1973. A summary of my proposals is at Annex A, their rationale is developed at Annex B and possible costs on various assumptions are detailed in Annex C.

A key feature is the idea of offering a <u>limited</u> guarantee to the lenders which, if accepted by the banks, would firmly limit the Government's commitment to a fixed maximum percentage of each banks' portfolio of loans. The level of interest charges which the Government would meet during the 'repayment holiday' would of course remain a potentially volatile element not only because of changes in prevailing interest rates but because of variations in the length of courses, during which the "holiday" would be operative.

These proposals do not contain any element of continuing subsidy to lower the level of interest rates incurred by the borrower after the 'repayment holiday'; while this was suggested by some respondents as a necessary incentive to borrowers, it would mean a significant increase in costs, and would encourage substitution. Nor do they provide for a Government advisory service to borrowers as some respondents and banks suggested. The target group for loans is individuals who are prepared to invest in their own future through acquiring additional skills or qualifications and they will themselves have to raise 20% of the cost of the training. They should be well motivated individuals who are best able to decide for themselves what training courses are relevant and will improve their earning capacity. Our publicity material will, however, suggest basic questions which potential borrowers will want to satisfy themselves on before committing themselves to a loan.

EXPENDITURE

The actual costs to the Exchequer will of course depend on what terms can be negotiated with the banks, the take-up rate, prevailing interest rates; the average length of training course and the level of bad debt. Annex C (Table 1) illustrates a possible range of Exchequer costs between £5 and £12m. A round of hard bargaining with the banks lies ahead of us; and for negotiating purposes we should of course start off with the banks at the lower end of the ranges illustrated in Annex A, although it would be necessary to retain flexibility and trade-off between individual elements. The banks have made it clear that for the scheme to be worthwhile to them we must have it large enough to repay their investment in staff training and setting up administration procedures and I believe that we should accept that our own commitment must be greater than the £5m single year investment originally envisaged.

The potential benefits of switching to loans from grants are very high. In my view, it is worth increasing our stakes by spending more to generate much more training than originally envisaged and by creating the climate which will allow the pilot to show the way to much more radical ways of funding training - with potentially enormous implications for saving public expenditure. It is important to show sufficient commitment over a reasonable period to persuade the major clearing banks not to hang back but to participate wholeheartedly in the pilots. My proposals, therefore, assume that we increase our investment from £5m in a single year to somewhere between £7 and £10m (with the pilot open for a 3 year period) and that, as a result, we can stimulate loans worth not £10m as originally envisaged but perhaps as much as £36m.

PILOT AREAS AND MARKETING

We have re-considered the best way to test and market a pilot scheme and rather than launch it nationally, it seems sensible to concentrate efforts, at least in the initial year, on banks in a few selected areas. This would help both a concentrated marketing campaign (in which we would play a major part) and the testing of administration procedures. Concentration on selected areas would not restrict eligibility to applicants and training courses within these areas but in practice most of the take up would come from them. To provide experience of different economic and social characteristics, I propose selecting 4 or 5 areas, one in Scotland, one in the North of England and 1 or 2 in the South and, if Nick Edwards wishes, one in Wales.

NEXT STEPS

I believe that the proposals outlined offer an imaginative and cost effective way of expanding training and increasing the individual's contribution to training costs with the minimum of Government bureaucracy and the maximum involvement of the banks. The importance to our wider training funding objectives of the successful launch of the scheme cannot be overstated. There are advantages in demonstrating that a loans scheme can operate effectively in vocational training. Success will of course depend on how many borrowers we attract and that must be speculative still, but these probably will give us our best chance yet to test the market and begin to change attitudes.

I hope you and colleagues can agree that my officials can now negotiate with the banks on the basis outlined above and within the limits outlined at Annex A and with an overall limit of Government commitment to the scheme of £7-10m. My officials would, of course, keep in close touch with yours and I would come back to colleagues before finalising a deal with the banks. I would hope to do this by July because if the scheme is to be operational by January 1986, the banks have told us that they will need some months for setting up administrative procedures and we will need time to plan an effective marketing campaign. It follows that we should aim to reopen talks with the banks within the next week or two.

I am copying this letter to the Prime Minister, and to members of E(A), to the Secretary of State for Education and Science and to Sir Robert Armstrong.

Lu

Tom

TRAINING LOANS SCHEME

ANNEX A

SUMMARY OF NEW PROPOSALS

The broad proposals of the consultation document on eligibility, maximum length of course, trainee contribution etc will be retained though a number of minor changes have been agreed with Departments most involved. The following are the proposed major changes.

Trainee Contribution

- Trainees will continue to be required to find 20% of the course costs but will not have to repay capital in full at prevailing commercial rate of interest (at fixed rate as with normal personal loans) until the end of the repayment holiday.

Repayment Holiday

- The Department will meet the cost of interest payments during the period of training, and for a period of up to 3 months after completion of training at the discretion of the banks having regard to nature of training and time taken to find employment using new skills.

- Negotiations with banks to explore ways of minimising "substitution" without imposing detailed Department vetting and/or means testing (e.g. by possible exclusion of certain categories of applicant such as those whose training should be financed in whole or part by their employers).

- Rate of interest payable by the Government during the repayment holiday to be negotiated, within the range of prevailing inter-bank rate and APR (the annualised rate normally charged for personal loans), allowing for factors such as the reduced risk to the banks because of the guarantee on the one hand and greater administrative burdens on the other.

Portfolio Guarantee

- Government guarantee to be based on each banks total portfolio of loans rather than on individual loans i.e. the Department will agree to meet the costs of bad debts up to a maximum percentage of the banks' annual portfolio.

- Because of the need to encourage the banks into lending in areas which at present they regard as too risky, the level of Departmental guarantee will be negotiated within range of 10-20% of total portfolio less say, 2½% to allow for banks' existing bad debt assumptions.

- Negotiations to explore feasibility within the portfolio concept of maintaining an incentive on banks to pursue recovery of debt even when within the overall default limit.

Managing Agent's Fee

- Government to make payment to banks as a contribution to additiona costs of operating scheme (Government accounting and departmental information requirements etc) and as incentive to banks to handle smaller loans for short courses - which we want to encourage, and which the banks might otherwise regard as uneconomic.

- The level of fee to be negotiated, with aim of achieving an administratively simple flat rate within range of £25-£50 per loan.

Marketing/Evaluation

- Government to offer as its contribution a budget of up to £0.5m over 3 years, designed to complement banks' own marketing efforts and identify/expand market.

- Government to offer some exchange of monitoring/evaluation information to help in assessment and operation of pilot scheme.

Overall Cost and Benefit

- Target of £10m of new loans each year for 3 years generating £36m worth of training (allowing for trainees' 20% share).
- Target cost to Government to be about one-quarter to one-third of value of training i.e. about £7-10m.

Department of Employment
May 1985

PROPOSED INCENTIVES FOR TRAINING LOANS SCHEME — ANNEX B

1. The case for introducing and structuring incentives to borrowers and lenders is set out below.

BORROWER INCENTIVES

2. Individuals will generally find it difficult to make repayments whilst they are actually under training. Indeed, those who train full time will have to borrow to cover maintenance as well as course fees. And this difficulty may continue for a period afterwards until they are settled in work. In theory 'roll up' is possible if the banks agree to defer repayment of capital and to add accumulating interest to the debt. In practice banks are reluctant to do this and many potential trainees would be deterred by the prospect of a rising burden of debt. It is not a practicable proposition. A repayment holiday for the period of training and up to 3 months afterwards would be the most useful help which trainees might be given. Under this proposal banks would agree to defer repayment of the principal and Government would pay interest to the banks on behalf of the trainee during the holiday period.

LENDER INCENTIVES

3. The major factor holding back the banking system from offering training loans on a commercial basis is the high degree of risk. So far as personal lending is concerned the single most important criterion which determines an individual's credit rating is whether he has a secure job and is earning enough to cover repayment. An individual proposing to invest in his own training will, however either not have a job, be giving it up to train, or be contemplating a job

change after completion. In effect, the bank is being asked to finance a speculative investment in an individual's personal skills and competence.

4. There is a strong and unanimous view by the banks that what is needed is a Government guarantee against loan default. Some have made it clear that they will not participate without a guarantee. Others will participate in a pilot scheme but only on the understanding that it is an interim stage towards a guarantee based scheme. A guarantee scheme was originally ruled out for the pilot stage because it was thought the Employment and Training Act 1973 did not give powers although the implication of the consultative document was that if we were able to give a guarantee that would be our preferred option. Legal advice now is that a guarantee is after all possible.

5. The attractiveness of a guarantee scheme is that it permits banks to lend to those who would not be regarded as sufficiently credit-worthy on normal commercial criteria in the knowledge that Government will provide compensation for the additional costs. This will allow an expansion of the market for loans and from the Government's point of view offers the attraction of guaranteeing more loans for a greater level of public investment than a matching loan arrangement. It should also be cheaper and simpler to run. Guarantees do, however, carry the very real risk that banks will regard any guaranteed loan as 'Government money' and become too relaxed in their lending and debt recovery policies. The traditional way of avoiding this, followed for example in USA student loans and with the Department of Industry's Small Business Loan Guarantee Scheme, is to guarantee only a proportion (70-80%) of each loan. This goes some way to reducing the risk and if even lower figures

were adopted it might be reduced further. Even so, experience indicates that default rates would still be high and unpredictable.

6. An alternative approach aimed at limiting commitment to a more acceptable level may be possible although it would require agreement from the banks and has not been put to them. Normal practice in commercial banks is to build a bad debt assumption into the costings of any lending portfolio. For personal lending in the UK, around 2-3% appears to be current practice. Interest rates and other charges are designed to leave a profit with default at that level. Furthermore, standard management information systems are designed to monitor performance and corrective action is taken if ratios fall markedly below (indicating that potentially profitable business is being turned away) or above (indicating laxness). The key to the system is to concentrate management effort on percentages and away from assessment of individual loans. We should build on this approach using the market mechanism and the bank's own management systems to deliver a target bad debt ratio we have set in advance.

7. An agreement with participating banks might:-

(i) Specify a lending limit. We have in mind £10m per year for three years. This would be entirely bank capital.

(ii) Exclude from any guarantee the level of default already assumed in the bank's pricing structure, say the first 2½%.

(iii) Guarantee any default above 2½% up to say 15% or 20%.

(iv) Exclude from the guarantee any defaults above the acceptable limit.

The net effect of this would be to limit Government commitment to a predetermined maximum whilst permitting banks to relax their normal lending criteria thereby expanding significantly the overall market for training loans. So far as the banks are concerned, it need not matter what limit is set but clearly the higher the limit the greater will be the expansion of training which banks would be prepared to finance, and we need to encourage them to take an expansionist view at least in the pilot phase.

MANAGING AGENTS FEE

8. Finally, a modest managing agents fee would compensate banks for the additional paper work involved in handling small loans on Government's behalf. A flat rate fee will encourage banks to lend for the short, relatively low cost courses which we want to encourage and, for that reason may be preferable to a percentage based fee. This will enable banks to handle most of the paper work, keeping Civil Service numbers to a minimum. There may be an element of trade off between this and the rate of interest charged during the repayment period.

DEPARTMENT OF EMPLOYMENT

MAY 1985

Annex C

Cost to Government of Training Loans

1. The target for the pilot scheme would be to make available each year £10m of new loans for a period of 3 years. Assuming repayments would be up to 3 years after starting work the last repayment could be due up to 8 years after the scheme starts.

2. Actual costs will depend critically firstly on what terms can be negotiated with the banks and secondly on the take-up rate; prevailing interest rates; average size of loans; average length of course and level of bad debt.

3. The costs of the scheme as envisaged are attributable to 4 main elements discussed below:

a. Repayment Holiday

The cost of offering a repayment holiday depends on the prevailing rate of interest, the average length of course and the length the permitted 'period of grace' (to allow for trainees finding employment). The formula for agreeing the rate of interest payable to the banks is for negotiation, but costs will inevitably fluctuate over time and no firm ceiling can be put on this element as with the proposed portfolio guarantee limit. Our aim would be to agree with participating banks a common formula and to look for a rate as near as possible to inter-bank rate rather than the prevailing APR normally paid by the individual borrower. Course length is an unknown quantity until we have some experience of operating the scheme. The grace period could be either fixed eg at 3 months or left to the banks' discretion to allow for very short courses of trainees not needing the full period.

b. Portfolio guarantee

The aim is to set an overall limit on the percentage of bad debt (on the annual portfolio of loans) that Government would guarantee, thus putting a firm ceiling on expenditure on this potentially costly element of the scheme. If the maximum level of bad debt to be recovered by the Government were set at, say 15% then after allowing for the fact that banks set their interest rates to allow for 2-3% bad debts, the Government's proposed contribution might be limited to 12½% of the overall value of the loans made. In practice the banks would be likely to proceed cautiously, at least before gaining experience of the expanded market, and the costs could well be lower.

c. Managing Agents Fee

The size of fee would be for negotiation, it might be set at a flat rate or expressed as a percentage of the loan; or alternatively it could be allowed for in the rate of interest paid to the banks during the repayment holiday. The costs of this element of the scheme would of course depend on the number (and size) of loans. A flat rate could be used to encourage banks to handle more small training loans and might be set at between £25 and £50 per loan.

d. Marketing and Evaluation

Effective marketing and evaluation of the new scheme will be essential, and a budgetary allocation to cover costs is considered a vital part of overall investment in the pilot scheme, and a figure of £0.5m is suggested.

4. For the purposes of illustrating the broad order of costs, as set out in the tables below, we have assumed a maximum take-up/of loans from the bank of £30m; interest rate 20%; an average loan of £1,000; average course lengths of 3 months plus 1½ months period of grace and 9 months plus grace period of 3 months and permitted levels of default between 10 and 20% of the total annual portfolio less the first 2½%.

5. Table 1 illustrates the lifetime/public expenditure costs based on the above range of assumptions and Table 2 illustrates the pattern of/public expenditure by FY assuming an even flow of take-up and of default.

PUBLIC EXPENDITURE IMPLICATIONS

Table 1: Illustrative Lifetime Costs of 3 years pilot

	(£m 85/86 prices) Low Estimate	High Estimate	Mean
Repayment Holiday	2.2	5.2	3.7
Portfolio Guarantee	2.2	5.2	3.7
Management Fee	0.7	1.5	1.1
Marketing/Evaluation	0.5	0.5	0.5
TOTAL	5.6	12.4	9.0

Table 2: Illustrative Annual spread of Costs (based on Mean costs of £9m above)

	86/87	87/88	88/89	89/90	90/91	91/92
Repayment Holiday	1.2	1.2	1.2			
Portfolio Guarantee	-	0.4	0.8	1.2	0.8	0.4
Management Fee	0.4	0.4	0.4			
Marketing/Evaluation	0.2	0.2	0.1			
TOTAL	1.8	2.2	2.5	1.2	0.8	0.4

Department of Employment
May 1985

E-8 MAY 1985

Educati[illegible]

Police Pay

Mr. Trotter asked the Secretary of State for the Home Department what are the rates of pay of members of the Metropolitan police in the ranks of *(a)* inspector and *(b)* sergeant.

Mr. Mayhew: Annual basic pay ranges from £9,369 to £10,749 for sergeants and from £11,328 to £12,789 for inspectors. In addition, all members of the Metropolitan police are paid London weighting of £762 a year and a London allowance of £1,011 a year.

Satellite Broadcasting

Sir Geoffrey Johnson Smith asked the Secretary of State for the Home Department what further progress has been made on the introduction of direct broadcasting by satellite; and if he will make a statement.

Mr. Whitelaw: The BBC is continuing with its plans to have two DBS services in operation by September 1986. It has signed heads of agreement with Unisat for the provision of two DBS channels, and contracts are due to be signed shortly. Substantial investment will be required before the introduction and during the period of take-up of the new services, and this will be financed by borrowing. The BBC's existing borrowing powers are insufficient, and should in any case remain available if necessary for the existing Home Services. A supplemental Royal Charter is therefore being prepared which would allow the corporation to borrow for the provision of satellite services up to £150 million, with the possibility of an increase to a maximum of £225 million with the permission of the Secretary of State. A draft of the supplemental Royal Charter has been placed in the Library of the House.

The IBA has now submitted proposals for DBS broadcasting by independent companies in the latter half of this decade. I am considering these, and will bring forward proposals as soon as I am able.

EDUCATION AND SCIENCE

University Education

Sir Brandon Rhys Williams asked the Secretary of State for Education and Science what is the estimated cost of university education in Scotland in 1982-83.

Mr. Waldegrave: Recurrent and equipment grant to universities in Scotland is estimated to total about £180 million in the academic year 1982-83. Fees paid to universities on behalf of home students will total about £20 million. Payments for capital expenditure in the financial year 1982-83 were £5·4 million.

These figures do not include the cost to public funds of student maintenance.

Royal College of Music

Sir Brandon Rhys Williams asked the Secretary of State for Education and Science whether the Government propose to provide further support for the Royal College of Music centenary appeal; and if he will make a statement.

Sir Keith Joseph: Since the appeal was launched in February last year it has raised from industry, commerce and other private sources around £1·9 million in donations and promises and building work totalling £850,000 is now under way. £200,000 was spent in financial year 1982-83 and under the terms of its original agreement, which I described in the answer to my hon. Friend on 8 March 1982—[Vol. 19, c. 313.]—the Government have met £100,000 of this. Subject to parliamentary approval of the Department's Estimates for 1983-84, a further £100,000, being the balance of the original £200,000 offered, will be paid in the present financial year when total expenditure reaches £400,000.

The Government also intend, on behalf of the taxpayer and again subject to parliamentary approval, to make further contributions towards the cost of approved building and asssociated expenditure undertaken as a result of the appeal, of £100,000 as and when the appeal, from sources other than the Government, has received a total of £2 million, and of a second £100,000, as and when it has received a total of £3 million.

Student Loans

Mr. Montgomery asked the Secretary of State for Education and Science if he has yet decided whether to introduce a system of student loans; and if he will make a statement.

Sir Keith Joseph: The Government have at present no intention of replacing any part of the student grant by a loan. We remain interested in finding means of widening access to higher education without excessive cost to the taxpayer, and in this context will continue to examine the whole system of student support. Student loans may have some part to play in this, but we would introduce any reforms, whether or not involving loans, only after widespread consultation; the first step would be the issuing of a cnsultative paper.

ATTORNEY-GENERAL

"Morning After" Pill

Dr. Hampson asked the Attorney-General how many complaints have been received, either by himself or by the Director of Public Prosecutions, which relate to the supply of what is commonly called the "morning after" pill; and whether he proposes to institute criminal proceedings in connection with any of the complaints.

The Attorney-General: One complaint has been made direct to my Department and three to the Director of Public Prosecutions. Each complaint alleges that the supply and administration of such post-coital medications contravenes sections 58 and 59 of the Offences against the Persons Act 1861 and that a woman using such medication may commit an offence under section 58 of the Act.

Such pills are intended to be taken by women following unprotected intercourse to inhibit implantation in the womb of any fertilised ovum. The sole question for resolution therefore is whether the prevention of implantation constitutes the procuring of a miscarriage within the meaning of sections 58 or 59 of the Offences against the Persons Act 1861. The principles relating to interpretation of statutes require that the words of a statute be given the meaning which they bore at the time the statute was passed. Further, since the words were used in a general statute, they are prima facie presumed to be used in their popular, ordinary or natural sense.

CONFIDENTIAL

cyNO

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

9 May 1983

The Rt. Hon. Sir Keith Joseph Bt MP
Secretary of State for Education and Science

Dear Keith

STUDENT LOANS

Thank you for your letter of 3 May.

I am content with your proposed line and with the terms of your draft statement and supplementary notes.

It is very important that we should keep alive the concept of a loans scheme despite the objections of some of our Parliamentary colleagues, which seem to me to be based on a serious misunderstanding of the nature and consequences of your original proposals.

Copies of this letter go to the recipients of yours.

GEOFFREY HOWE

EDUCATION: Student Loans

March '81

CCNO 2

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

1) Mr Ricketts WR 3/5

2) Prime Minister

JF 3/5

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1

3 May 1983

Dear Geoffrey,

STUDENT LOANS

Following our discussion in March I have been giving further thought to what might be said on the question of student loans. I now see advantage in making an early announcement by means of a Written Answer in order to clarify the Government's position. I attach a draft statement together with draft notes for use in answering future questions in the House, Ministerial correspondence and press enquiries. I should be grateful to know as soon as possible whether you are content with the proposed line.

I am copying this letter and enclosures to the Prime Minister, the Home Secretary, the Secretaries of State for Northern Ireland Scotland and Wales, the Lord President, the Lord Privy Seal, the Paymaster General and the Chief Whip.

Yours

Keith

DRAFT ARRANGED PQ ON STUDENT LOANS

Question: To ask the Secretary of State for Education and Science, if the Government has yet decided whether to introduce a system of student loans, and if he will make a statement.

Answer: The Government has at present no intention of replacing any part of the student grant by a loan. We remain interested in finding means of widening access to higher education without excessive cost to the taxpayer, and in this context will continue to examine the whole system of student support. Student loans may have some part to play in this, but we would introduce any reforms, whether or not involving loans, only after widespread consultation; the first step would be the issuing of a consultative paper.

NOTES FOR SUPPLEMENTARIES

Q. Does this mean that there will be no further developments in respect of loans in the life of this Parliament?

A. Yes.

Q. Does this mean that the Government will introduce a loans system directly after the Election?

A. No. We would only make a decision about legislation after first undertaking widespread consultation.

Q. When will the consultative process begin?

A. No decision has yet been made.

Q. Why, then, have you raised such expectations about loans?

A. The Secretary of State has said only that he is interested in the idea; he has never committed the Government to any moves, legislative or otherwise.

Q. The Government is trying to have its cake and eat it: this is no more than a cynical pre-Election attempt to throw dust in the eyes of the public. Are you or are you not going to introduce loans?

A. We have no present intention of doing so.

Q. Has not the Secretary of State already made up his mind to introduce loans, but recognising the unpopularity of the idea is afraid to come clean?

A. The introduction of some form of loans arrangements is only one amongst a number of possible approaches to widening access to higher education which we shall be examining carefully before preparing our consultative paper.

Q. Both the Secretary of State and his predecessor have failed to carry their Conservative colleagues with them on this issue. Why does he not recognise a bad job when he sees one?

A. The Party opposite does not have a monopoly on the free expression of opinion. I would be disappointed if the day ever came when radical new ideas failed to provoke a strong reaction. It is healthy for them to be subjected to constructive criticism.

Q. Is the Government's objective in all this not simply to further reduce spending on education?

A. No. We are seeking to maximise the effectiveness with which the available resources are used.

Educ : March 81: Student Loans

CONFIDENTIAL AND PERSONAL

Education

→ CFM

4

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

1) Mrs Scholar
2) Prime Minister

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
London SW1

This was discussed briefly at the wider parental choice meeting

30 March 1983

JC

30/3.

Dear Geoffrey,

When you and I met this morning with Leon to discuss the way forward on loans I readily agreed with the views in your letter to me of 18 March, that a scheme to substitute access to state-guaranteed, if not state-supplied, loans, in place of the parental contribution would in fact be perverse. It would, as your letter argues, serve no one of the political, practical or financial purposes in our minds.

Our aim now, we agreed, should be to ensure that the Manifesto keeps open the possibility of a loan scheme of the general sort I proposed in H(83)15 - without of course committing us to it. You said that you would suggest suitable words for the Manifesto draft and ensure appropriate notes to candidates in their support.

I am copying to those who received your letter.

Keith.

Educ: March 81 Student Loans

CONFIDENTIAL AND PERSONAL

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

Prime Minister
22/3

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

21 March 1983

Dear Geoffrey,

STUDENT LOANS

Your letter of 18 March is full of sense. I've only retreated to a minimal scheme - with the disadvantages you identify, though there is some potential advantage - because there seems small hope of securing the agreement of colleagues to my original H proposals. I would welcome a further talk.

Copies of this letter go to those who received yours.

Keith.

Education
Mar '81 Student Loans

PRIME MINISTER

1.

Duty Clerk
19/3

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

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Education
and Science

18 March 1983

I agreed
MS

Dear Secretary of State,

STUDENT LOANS

Your letter of 16 March about student loans bothers me a lot.

Under your new scheme, as I understand it,

- the student would receive not a penny less in grant from public funds than he does now; but

- to the extent that his full award was abated to take account of his parents' resources, he would no longer be expected to receive the balance from his parents or to make it up in other ways (eg holiday earnings). Instead he would have access to a State, or State-backed loan;

so the extent of Government responsibility for student support would increase.

I have compared this with the scheme originally proposed in your paper for H Committee:-

- You thought the first scheme would reduce the dependence of students on the State. Your new scheme would do the reverse.

- You thought it right that those who enjoy the benefits of higher education should bear part of the present cost of supporting them. Your new scheme would not achieve this.

- You suggested that it would reduce the PSBR by some £250 million a year in the longer term (less administrative costs). Your new scheme would, I suppose, marginally increase it (by the amount of the administrative costs).

- And you argued that placing some financial responsibility on students would accelerate maturity and improve the quality of their choices and motivation; which would

/in turn stimulate

in turn stimulate institutions better to serve the demands of students and employers, and encourage more cost-effective forms of provision such as shorter, more intensive courses. I can't see how the new scheme would do any of these things.

There is one further consideration. Detailed and largely accurate accounts of your original scheme have appeared in the educational press. How would you explain a reversion to a scheme which seems to have little going for it, in terms either of educational principle or of our efforts to roll back the frontiers of the State and encourage self-reliance?

Is it really sensible to press ahead with a loan scheme at all on the basis you discussed last weekend? It seems to me that it neither offers the long-term expenditure savings we first had in mind - indeed, it involves a modest increase in spending - nor does it mark any significant move towards fulfilling our original political objectives. I suspect that if we were to proceed there would be a real danger of our motives being misunderstood, with our opponents presenting the scheme as "the thin end of the wedge", for the sake of no solid gain at all, either economic or political.

It follows that I would not wish William Waldegrave to start discussions on modalities with the banks. Surely it would be wise if we were first to have a further discussion amongst ourselves?

Copies of this letter go to the Prime Minister, the Lord President, the Chief Secretary and the Paymaster General.

Yours sincerely

John Kerr

pp. GEOFFREY HOWE

(Approved by the Chancellor: Signed in his absence.)

CONSS

CONFIDENTIAL

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1

EDUCATION.

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

Prime Minister

16/3.

16 March 1983

Dear Geoffrey,

When we[x] discussed a number of education issues on Sunday, we agreed the following policy guidelines about student loans.

i. It is important to establish the principle of there being an element of loan in student support.

ii. We are too far down the road to fight the election on a generalised commitment to loans, or to try to minimise discussion on the subject, because our opponents know that quite detailed schemes exist; we would be under constant pressure to deny or confirm particular plans, and at risk of leaks. Nor do we want to be forced to commit ourselves to abandon the principle.

iii. We cannot proceed with a scheme on the lines of my now withdrawn H paper, on the grounds that the burden of debt on students, particularly on those from poorer families, is not considered in the present climate to be politically acceptable.

We therefore decided that:

A. because of i. and ii. above we must have a scheme;

B. because of iii. above it must not be thought to discourage poorer students and must be acceptable to our own people who are opposed to loans as they have been presented so far; that is, it must be defensible electorally.

/We then

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
London SW1P 3AG

x The Prime Minister, the Leader of the House and the Chairman of the party.

We then concluded that the only scheme which met these objections was one which maintained the present grant system and in addition established a loan scheme to which those who do not receive the full award would have the right of access up to the amount, in an individual case, of the currently assessed parental contribution.

My officials are working up such a scheme, with and without the various schemes for improvement to the present grant system suggested in my original 'H' paper proposal. If Treasury Ministers agree, I will ask William Waldegrave to pursue the administration of such a scheme with the banks and would then propose to return to H with a new paper.

I am copying this letter to the Prime Minister, the Lord President and the Paymaster General.

Yours ever,

Kevin

Education.
Mar '81.
Student Loans

Original on
EDUCATION:
Policy: Pt 3

cc EDUCATION
wider Parental
Choice: Nov 82.

10 DOWNING STREET

1. Mr. Fletcher
2. Mr. Scholar
3. File

17 March 1983

MR BUTLER

EDUCATION DISCUSSION: CHEQUERS, SUNDAY 13 MARCH 1983

Present: Prime Minister
Baroness Cox
Sir Keith Joseph
Mr Biffen
Mr Parkinson
Mr Waldegrave
Mr Mount

1. Student Loans

A revised approach to the original paper was discussed. Mr Biffen felt that the first aim must be to keep the question alive in a way which could carry us through the General Election, and this would only be politically possible on the lines now suggested by Mr Waldegrave - namely, that only the parental contribution should be considered relevant to the loan scheme. Sir Keith pointed out that parents who wished to continue to pay the parental contribution could, of course, do so; but that the essential point was that less well-off students would not be discouraged from seeking access to higher education. The disadvantage was, of course, that we were substituting an initial and sizeable Exchequer contribution for the parental contribution, and that in the short-term this would add to public expenditure. It was pointed out that the banks now offered considerable overdraft facilities to students who were in financial embarrassment, and it was worth discussion with them how far a loan scheme could be carried out through their agency. However, it was agreed that, subject to consultations with the Treasury, this was the best route for keeping the principle alive. (Sir Keith's letter to the Chancellor of the Exchequer of 16 March gives effect to the conclusions in this discussion.)

2. Polytechnics

Lady Cox said that the situation in the North London Polytechnic was just as bad as it had been when she had written "The Rape of Reason". The case of Marian Jeffrey which she had drawn to the attention of the Prime Minister and Sir Keith was only the symptom of a Marxist saturation of the Sociology Department. North London was not the only Polytechnic where this kind of process had taken place. It was usually confined to the Sociology and allied departments, and did not generally infect other faculties such as Law and Engineering.

The difficulty was that the Sociology section of the CNAA was itself under Marxist domination and was therefore validating courses which ought not to be validated. Sir Keith and Mr Waldegrave suggested that the inspectors were the people to pick up this kind of corrosion of academic standards, but it was admitted that the difficulty was to find impartial sociologists of sufficient weight and courage to carry out investigations of this sort, and report without fear or favour. However, they were very conscious of the difficulties and would certainly see what the DES could do to help.

3. Education Vouchers

There was a brief discussion of progress on education vouchers and Sir Keith said that his group was working on proposals which would be brought back to Ministers as soon as they were ready.

F.M.

E.R.

PRIME MINISTER

Please include in weekend box

2

Student Loans

Attached is an H paper by the Secretary of State for Scotland which opposes student loans on general political grounds, as well as on particularly Scottish grounds. For example, the four-year degree course, common in Scotland, would require students to repay a third more than students in England.

TIM FLESHER

8 March, 1983

STUDENT LOANS

1. In September 1981, the Secretary of State for Education re-opened the issue of student loans. H Committee had in March 1981 rejected his predecessor's proposal to develop such a scheme the previous year; objections from colleagues had come from two directions: Treasury had opposed the short term cost of a scheme which contained 'sweeteners'; others had opposed the concept.

2. The new Secretary of State believed that important philosophical and long-term political gains, as well as long term public expenditure savings, would flow from the establishment of the principle of loans and that these gains would be worth buying with considerable short term expenditure. Early discussions at Ministerial level with Treasury showed Ministers there to share his belief. The relevant junior Minister at DES had also come to support the concept of loans, partly because he shared the Secretary of State's view of some of the long-term social and political gains, partly because he saw no prospect of making any improvements to the student support system, for example on the parental contribution or wider access, while the system remained so expensive.

3. Throughout 1982 therefore work continued on a scheme. DES Ministers made no secret of this. In higher educational circles acceptance of a loan concept began to gain ground; the Labour Party education committee were against it only by a majority; participants in the Leverhulme seminar chaired by Sir Kenneth Berrill were in favour by a majority; the Policy Studies Institute produced a powerful pamphlet arguing in favour.

4. During 1982 CPRS looked at radical reformation of higher education and suggested that economic fees for courses should be charged, for which some might have to pay by loans. The DES scheme is concerned not with fees, which the State would continue to provide, but simply student maintenance, which amounts to much the smaller part of the total cost of a student to the taxpayer. The leak of the CPRS paper however confused the discussion and aroused further opposition to loans as a concept.

5. The result of the DES work is the present H Committee paper and its annex. It summarises at (a) to (f) on page 1 the general DES arguments; the annex describes a scheme.

In summary, the scheme:

- makes half student maintenance repayable with unsubsidised interest rates, but various privileges for deferral, over a fifteen year period;

- lands the average 3-year-course student with an estimated debt of something over £3,000 to be repaid on various different repayment profiles starting two years after graduation;

-halves parental contributions, gives mandatory awards to those at present on discretionary awards, and brings down the 'age of independence' for students from the present 25 to 21;

- saves in the long term nearly £250m per annum.

6. Very considerable opposition remains, inside the party and outside, to such a scheme. In particular, critics will say:

- the scheme will discriminate against the poorest, since those now on full grant will have to pay back half like anyone else;

- the scheme would land the highest qualified group of young people with a new disincentive comparable to a new tax; those such as doctors, many engineers, and those in Scottish universities who do longer than average courses, will have bigger debts;

- it is argued that well qualified people who are successful already pay for HE with higher taxes;

- all opposition parties would attack the scheme and promise to reinstate the loans as grants; this might mean very high levels of politically supported default, above that assumed in the H paper (10%).

7. There are also those in our own party who simply reject the value of the philosophical gains set out in the H paper.

8. Some of these points may be more or less answered by pointing to the fact that no other country operates wholly by grants as we do, and most do better than us in bringing people into higher education. Other counter-arguments include the fact that our low level of working class participation in HE reflects low working class post-16 schooling rates and has little to do with student support arrangements; that high earners who did not enjoy full-time HE (Clive Sinclair, Austin Bide) pay the same tax rates as those who did; and that anyway we intend further to cut disincentive taxes on high earners.

9. The fact remains that a formidable alliance of those concerned about clever children from poor backgrounds, about new burdens on the present predominantly middle class users of HE, and those with university or polytechnic constituencies would ensure a battle over the proposals which would have costs. DES Ministers do not under-rate this, but believe that the three positive elements in the package, and quite widespread if not very vehement support amongst the general public, provide a substantial ground from which to counter-attack.

10. Some opposition might be blunted by more sweeteners. The

annex to this paper outlines at A some options. The costs of these are listed. It may be doubted whether any of these would necessarily buy off the determined opponents, though abolition of the remaining parental contributions in the H paper scheme would considerably blunt 'middle class' opposition.

Option B certainly would still opposition. It is, in effect a cheap way (in the medium term) of simply abolishing the parental contribution element of the present system. If money were to be spent (about £40m in the steady state) on inserting the principle of loans into student support, this is the simplest way of doing it and being popular. Short-term costs are very great (about £150m in the worst year).

Option C tries to envisage a national scholarship scheme to help the bright children of poor families. It is exceedingly difficult to make work.

11. Option D is a different kind of animal. It sketches one outline of a radical reformation of all post-compulsory school support; introducing a comprehensive system of not-very-generous support for all in post-16 education of whatever kind, for 3 years, plus topping up loans for HE courses. The three year's grant could be taken - or stored up - as suited the individual best. The short term costs are enormous, though the scheme is self-financing in the end. A scheme of such a nature would completely change the nature of the loans debate and would constitute a dramatic example of outflanking our opponents. It has considerable attractions, but would need enormous work to develop.

12. Loans schemes are very much in the air. Everyone knows that the Secretary of State is committed to one; his PUSS has abandoned his previous opposition for the reasons explained. We cannot do nothing. If we simply go on saying that we are considering schemes without commitment through the election period, we will be accused of contemplating schemes far more unpopular than we have in fact considered, and will be accused also of trying to avoid facing the electorate. To suppress discussion with a hidden intention of proceeding after the election would thus not only be dishonourable but also politically stupid. We have two simple courses, and just possibly one intermediate one.

1) Drop all schemes, and mean it (though some will not believe us);

2) Produce a scheme in detail and defend it; in the time available this could only be the H paper scheme whether sweetened further or not, or could be the popular but expensive option B (replacing parental contribution by loans);

3) Publish a discussion paper of a futuristic kind on some

radical scheme such as option D, which would keep the loan principle alive through an election but as part of a major reshaping of education support, a subject which the impact of MSC grants to their trainees on schools and colleges may anyway bring forward as time goes on. This would of course preclude early action, but would perhaps be a way of effectively dropping present schemes without wholly abandoning commitment to the principle of loans. It would on the other hand raise some expectation of eventual radical and expensive reforms which we might never be able to implement.

WILLIAM WALDEGRAVE
March 1983

A. MAKING THE H COMMITTEE PAPER LOANS PACKAGE MORE ATTRACTIVE

NOTE: PSBR effects are shown on the same basis as in the H Committee paper, and represent changes in the cost of the package of proposals set out in that paper (H Paper Annex, Section D).

OPTION 1: ABOLITION OF PARENTAL CONTRIBUTION

The package already reduces the yield from the parental contribution, by lowering the age of independence to 21 and by substituting non-means-tested loans for part of means-tested grants. This option shows the additional cost of doing away with the parental contribution altogether.

PSBR Effects

£m

YEAR 1	2	3	4	5	10	15	1982/83 Prices Steady State
+30	+65	+100	+100	+100	+100	+100	+100

OPTION 2: REDUCTION IN PARENTAL CONTRIBUTION BY £50m

This would allow the residual income threshold for the parental contribution to be raised from £6,600 to about £10,400 taking some 80,000 families out of contributing altogether in a full year and reducing the contributions for most other families.

PSBR Effects

£m

YEAR 1	2	3	4	5	10	15	1982/83 Prices Steady State
+15	+33	+50	+50	+50	+50	+50	+50

OPTION 3: RAISING THE VALUE OF THE GRANT

Raising the value of the grant by 10.4% would restore its value to something close to the 1978/79 level. This would have to apply to all students, not just those starting their courses after the new arrangements were introduced. It would have the following effect on the rates of grant:

	1982/83	Revalued by 10.4%
London	£1900	£2100
Elsewhere	1595	1760
Home	1225	1350
Average	1660	1830

PSBR Effects

£m

YEAR 1	2	3	4	5	10	15	1982/83 Prices Steady State
+59	+58	+56	+56	+56	+49	+41	+28

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B. A DIFFERENT LOANS SCHEME

An alternative to the 50:50 scheme described in the H Committee paper might be to retain means-tested grants for Higher Education as now, but to make loans available in place of the parental contribution. This would leave unchanged the grant entitlement of students from less well-off families but solve the problem of non-payment of parental contributions. The PSBR effects of such a scheme, incorporating also an extension of mandatory awards to all AFE courses and a lowering of the age of independence to 21, as in the H Committee proposals, might be:

1. Retaining the Minimum Award

£m — YEAR — 1982/83 Prices

	1	2	3	4	5	10	15	Steady State
1. Retaining the Minimum Award	+59	+106	+153	+153	+153	+127	+97	+49
2. Abolishing the Minimum Award	+58	+106	+152	+152	+151	+124	+91	+40

2. Abolishing the Minimum Award

NB. These PSBR effects are as compared with present policies: they are in place of, not in addition to, those in the H Paper Annex.

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C. A NATIONAL SCHOLARSHIPS SCHEME

If it were considered that the H Committee paper loans scheme might deter bright children from poor homes from entering HE, a way of alleviating this (but not wholly removing it) might be to introduce some sort of National Scholarships Scheme, which could also have a wider role in encouraging the brightest children irrespective of home background to enter HE. Two possibilities which might be considered are:

1. A scheme which offered additional money on top of that available through the grants and loans scheme. The additional money might be awarded non-means-tested, solely according to academic merit: this would be likely to be of most benefit to middle-class children. Alternatively it might be means-tested, which would concentrate help on those from poorer homes but limit the scheme's wider usefulness as a spur to the brightest to enter HE despite the loans burden they would incur.

2. A scheme which substituted a non-means-tested grant for the loan element within a 50:50 system. This would be of more direct benefit to the impecunious bright child, restoring his position to what it is under the present system, but would also provide a "windfall" benefit to bright children from better off families.

In either case there would be very substantial administrative problems to contend with, whether the scheme was run through giving quotas of awards to individual institutions or nationally on a competitive basis.

The PSBR effects, in £m at 1982/83 prices as charges in the cost of the H Committee paper proposals (i.e., in Section D of the Annex) might be as follows:

I. A "top-up" Award of £500 per annum

(a) Non-means-tested

% of first degree students obtaining an award	YEAR 1	2	3 and thereafter
5%	+ 3	+ 6	+ 10
10%	+ 6	+12	+ 19
30%	+19	+38	+ 57

(b) Means-tested (to reduce cost by same % (c.24%) as present parental contribution system)

% of first degree students obtaining an award	YEAR 1	2	3 and thereafter
5%	+ 2	+ 5	+ 8
10%	+ 5	+ 9	+ 14
30%	+14	+29	+ 43

II. A NON-MEANS-TESTED AWARD IN SUBSTITUTION FOR THE LOAN ELEMENT WITHIN A 50:50 SYSTEM

% of first degree students obtaining an award	YEAR 1	2	3	4	5	10	15	Steady State
5%	0	+1	+2	+2	+2	+ 5	+ 9	+15
10%	+1	+2	+3	+3	+3	+ 9	+18	+31
30%	+3	+6	+9	+9	+9	+28	+53	+91

NOTE: 5%, 10% and 30% of first degree students respectively correspond very roughly to those with 15 UCCA points ('A' level grades A,A,A), 14 points (grades A,A,B) and 11 points (grades B,B,C).

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D. A POST-COMPULSORY EDUCATION BENEFIT

NOTE: No work has been done on the consequences for individuals and for the education system of introducing a system of the kind outlined below: it is merely an illustrative, simplistic outline construct, with costings based on a range of heroic assumptions, and taking no account of things like the position of those on HE courses lasting more than 3 years or variations in the number of weeks' attendance required.

1. Financial support for students in full-time NAFE, particularly at ages 16-19, is in a mess. There is a feeling in some quarters that HE students are treated very generously at the expense of those in NAFE. A radical re-shaping of student support arrangements for post-compulsory education generally might be widely welcomed.

2. One not particularly generous approach might be to replace all existing educational support arrangements (other than at postgraduate level) with a scheme along the following lines:

(a) An entitlement for all to 3 years fairly toughly parental means-tested grant at a modest flat-rate level (say £800 per annum, equivalent to £20-25 per week, as compared with the single non-householder rate of £23.65 which is not dependent on parental income) for full-time study post 16 - to be taken whenever a person wished and tenable in schools, NAFE or HE (nb, it is assumed that this would not replace MSC allowances, which are at higher levels and are non-means-tested).

(b) An additional entitlement for full-time HE courses only to a non-means-tested loan of up to the present value of the mandatory award, on the same terms as in the H Committee paper. Where the grant entitlement was not used in HE, the loan would cover the full value of the award; otherwise it would top-up the grant to that level. (The effect of this would be to significantly increase the repayment burden illustrated in the H paper in many cases).

3. The PSBR effects (£m: 1982/83 prices) of a scheme of this kind as compared with present policies might look something like the following:

I. If all going into HE used up 2 years of grant before entry

	YEAR 1	2	3	4	5	10	15	Steady State
Schools/NAFE	+220	+340	+350	+350	+350	+350	+350	+350
HE	+ 15	+ 25	+ 30	+ 75	+ 75	- 20	-165	-375
ALL	+235	+365	+380	+425	+425	+330	+185	- 25

II. If all going into HE use their 3 years grant there, supporting themselves before entry

	YEAR 1	2	3	4	5	10	15	Steady State
Schools/NAFE	+155	+205	+215	+215	+215	+215	+215	+215
HE	+ 15	+ 25	+ 30	+ 30	+ 30	- 35	-120	-250
ALL	+170	+230	+245	+245	+245	+180	+ 95	- 35

CONFIDENTIAL

Assumptions

1. In all cases where grant is given it equals £800 per annum, and is means-tested in such a way that two-thirds of the total cost is met from the public purse. The means test would have to be a tough one to provide adequate scope within the resources available for maximum award-holders and for independent students.

2. The scheme applies only to those starting new courses after its introduction.

3. About £50m per annum is saved on existing maintenance awards in schools and NAFE.

4. Numbers of students in each sector: HE = 382,000; NAFE = 315,000; Schools = 440,000.

5. No changes in present participation rates are allowed for. A grant at the level proposed would probably produce a limited increase in NAFE and school participation, while the loan arrangements might depress HE participation.

6. The cost of loans is calculated on the same costing assumptions as for the H paper scheme (probably unrealistic in this context).

7. No potential savings in non-educational benefits have been taken into account.

PRIME MINISTER

I am very surprised about Student Scheme.

MS

4

I conveyed the PM's comments to the Home Secretary, Secretary of State for Education + Cabinet Office

8/3

STUDENT LOANS

Attached is an H paper by Sir Keith Joseph which makes a number of proposals for student loans. The proposals are not for a full loan system but for a mixed system in which the maintenance element of the present grant would come from a loan and the fee element as at present from a Government grant. There would be a number of sweeteners.

(i) the parental contribution would apply only to the grant element and, therefore, would help the 20% of parents who pay the largest contributions and just as important would help with the non-payment problem;

(ii) the mandatory support system would be extended to all full-time and sandwich courses at the appropriate level;

(iii) students will be treated as independent for grant purposes from the age of 21 not 25 as at present.

All these elements will encourage students to enter higher education not as the Opposition to loans will claim discourage them.

The financial details of the scheme are as follows:

The extensions of the support system proposed by Sir Keith would involve net additions to the PSBR of £14 million in the first year rising to £30 in the 3rd - 5th years. Break-even point would be reached in the 8th year. Savings of £116 million in year 15 and a stable level of savings of £241 million after about 30 years. Sir Keith has accepted the Chancellor's argument that students should repay loans at the market rate of interest with a low-start pattern of repayments. Provision would be made for deferment of payment in certain circumstances but debts would not be written off until death or retirement. Typical payments might amount to about £200 a year. Much work remains to be done on the administration of the scheme, for example, American experience with schemes administered through the banks is not encouraging.

/Sir Keith

Sir Keith is proposing that a scheme along these lines should be included in the manifesto and has asked H Committee to authorise the detailed preparatory work.

JJ.

2 March, 1983

Education

e

CONFIDENTIAL 2

Prime Minister.
You will wish to be aware of this.
[illegible]
22/

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
London SW1P 3AG

22 February 1982

Dear Geoffrey,

STUDENT LOANS

have requested
SLT

Thank you for your letter of 10 February. I am encouraged to find that we agree that student loans are in principle attractive.

I quite take your point that before approaching the banks we need to have developed fairly firm ideas acceptable to us both. I am as you suggest asking my officials to get in touch with yours to take this forward. I am asking them to look at the same time at the possibility of a much simpler interim scheme which might be brought into operation earlier.

I am sending a copy of this letter to the Prime Minister.

Ever, Keith.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

CONFIDENTIAL

Prime Minister (2)

MS 24/2

Education

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

10 February 1982

The Rt. Hon. Sir Keith Joseph Bt MP
Secretary of State for Education and Science

Dear Keith

STUDENT LOANS

Thank you for your letter of ~~22~~ January.

I start with an inclination in favour of the principle of loans for students instead of grants and I am pleased to see that in looking again at the possibilities you have abandoned a number of the elements of the package put to H Committee last March which would have added so substantially to public expenditure in the short-term.

But the issues involved are complex and, as you say, your proposals are tentative. I do not want to comment in detail here on your outline scheme, but the level of subsidy implied - through the guarantee, preferential interest rates, deferred repayments and so on - looks very high for a scheme designed in part to allow students to come to informed judgements about the value of education as compared with its cost. A subsidised rate of interest could also have implications for monetary demand which we would need to consider carefully.

I think we need to carry consideration of the implications of the scheme you envisage much further forward before a new approach is made to the banks. They gave Government their preliminary reactions to the concept of a loan scheme last year and would expect our ideas to be reasonably firm before we went back to them. We need at least to enter discussions knowing which are the conditions on which we are prepared to compromise and which are not negotiable.

I suggest therefore that your officials get in touch with mine to examine these questions before further soundings are taken with the banks.

GEOFFREY HOWE

Education

Prime Minister

MLS 11/2

(2)

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

22 January 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

Dear Geoffrey

STUDENT LOANS

I have been looking again at the possibility of introducing student loans in partial substitution for the present system of awards. If we abandoned the immediate abolition of the parental contribution and were able to introduce private sector finance, a viable scheme need not involve all the short-term costs to public expenditure which were entailed in the scheme my predecessor put forward last year. Indeed, I believe that there is the prospect of a substantial saving to public expenditure. I should therefore like to explore rather more fully than was done in the past the possibility of bank participation in a scheme.

2 My ideas are still at a very tentative stage, but I am thinking in terms of a mixed system of grants and loans, in which the loan element would be increased progressively to a maximum of, perhaps, 50% of the total award. It is essential that loans should be available to all students currently eligible for mandatory awards under the 1962 Education Act. (This may prove the major problem with the banks, who on the last round made it clear that they must retain their present freedom to discriminate between applicants for loans.) Loans would initially be for maintenance alone, though I would not exclude the possibility of extending them eventually to fees as well. The grant, but not the loan, element would be subject to parental contribution which would gradually be reduced as the proportion of loan to grant was increased. The necessary legislation would have to be enacted early in the 1982/83 Session if the scheme were to be introduced in this Parliament.

3 If the banks were to take this on, I believe that the savings by the time the scheme had been running for about 5 years could amount to between £100m and £200m annually, even after taking account of the cost

of indemnity against losses, the waiving of repayment in cases of hardship, and a subsidised interest rate. The clearing banks are certainly anxious to secure and retain student custom. I believe that this gives us a basis on which to discuss the terms on which they might be prepared to participate. Our next step, assuming that you were content with the basic approach, might be to ask David Young and your officials to take informal soundings . . . with the banks on the basis of the scheme outlined in the annex to this letter. Once we knew their initial reaction a more detailed scheme could be drawn up and costed.

4 I would of course welcome the opportunity to discuss the issues informally with you, if you felt that this would be helpful.

Yours,

Keith

STUDENT LOANS

OUTLINE SCHEME FOR PRELIMINARY DISCUSSION WITH THE BANKS

The suggested scheme would initially make loans for maintenance only, though consideration might later be given to their extension to fees.
/say Initially,/25% of the current maintenance grant would be replaced by loan. The proportion of loan to grant would be increased progressively to say 50% within say 5 years of the inception of the scheme.

2. Loans would not be subject to parental contribution. The aim would be to introduce them in the academic year 1983-84 for new entrants to higher education: those already on courses would continue to receive full grants. Similarly, successive increases in the proportion of loan to grant would apply only to new entrants to higher education: ie, those embarking on courses during the period in which the proportion of loan was being increased would be guaranteed the same proportion of grant to loan throughout their courses.

3. Assuming loans of about £400 per student for an estimated 137,500 new entrants to higher education, the banks' total commitment in the first year of operation would be about £55m. By the time the scheme was extended to say 50% loan, the banks would be lending students rather more than £200m annually.

4. The conditions on which loans were extended to students by the banks would be subject to detailed negotiation, but should ideally include the following -

(a) Participating banks would be indemnified against losses arising from bad debts provided that all reasonable steps had been taken over a period (perhaps 12 months from the date at which repayment was due) to secure repayment.

(b) It would be essential for interest to be charged to students at substantially less than commercial rates, perhaps half. It would be highly desirable for the banks to share with Government on a fifty-fifty basis the cost of the resultant subsidy, but the % shares would be open to negotiation.

(c) An income threshold for repayments, which might commence when an individual's earnings reached 80% of the national average and be deferred during any period in which they fell below this level, would be highly desirable. Since however the banks would almost certainly require to be indemnified in such cases the potential costs would need careful examination. The banks might however be sounded on the administrative practicality. Subject to this, interest at the subsidised rate would be payable by students 9 months after completing their courses. Before this, interest would be paid to the banks by the Exchequer.

10 FEB 1982

Mr Pattison

CABINET OFFICE

With the compliments of

W. N. HYDE

MAP

70 Whitehall, London SW1A 2AS
Telephone 01 233

K 0129

Education

MR BOYS SMITH

STUDENT LOANS

1. This note is written solely "for the record"; first to record that the Home Secretary agreed that he did not need to reply to the Lord Chancellor's letter of 6 April restating his opposition to student loans. That letter is not, I think, to be considered as a formal objection either to the decision of H Committee or to the terms of the subsequent written answer by the Secretary of State for Education and Science.

2. As regards the text of that answer, I suggested, and you agreed, that since the draft had been endorsed, with some amendment, by the Prime Minister and the Chief Secretary, it was neither necessary nor appropriate for the Home Secretary to write conveying the normal formal approval on behalf of H Committee. I told DES this when they asked me yesterday whether such approval was likely to be given.

3. I am copying this note only to Mike Pattison at No. 10.

WNH

W N HYDE

15 April 1981.

File

DSG

cc: HO
CSO, HMT
Ch/Duchy
CO

10 DOWNING STREET

From the Private Secretary

14 April 1981

Thank you for the letter which you sent me this morning, enclosing the final text of your Secretary of State's proposed Written Answer about student loans. I confirm that this meets the Prime Minister's concerns.

I am sending copies of this letter to Stephen Boys-Smith (Home Office), Terry Mathews (Chief Secretary's Office, HM Treasury), Nick Huxtable (Chancellor of the Duchy of Lancaster's Office) and David Wright (Cabinet Office).

M. A. PATTISON

Peter Shaw, Esq.,
Department of Education and Science.

DSG

JT

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

M A Pattison Esq
Private Secretary
10 Downing Street
LONDON SW1

14 April 1981

Dear Mike,

STUDENT LOANS

This is to let you know the final form of the announcement on student loans which my Secretary of State will be making tomorrow by written Answer to an inspired Question.

It follows the original text, except in incorporating the Prime Minister's amendment and one which my Secretary of State has agreed with the Chief Secretary.

I am copying this to the Private Secretaries of the Secretary of State for Home Affairs the Chief Secretary, the Leader of the House, and to Sir Robert Armstrong.

Yours sincerely

Peter Shaw

P A SHAW
Private Secretary

To ask the Secretary of State for Education and Science, if he will make a statement on the question of introducing a loans scheme for student support.

MARK CARLISLE

After studying a number of possibilities and taking into account the experience of other countries who operate a loans scheme for student support, I believe that there would be considerable merit in a system which would replace the present system of grants by a scheme of student support involving a mixture of grants and loans. I am also satisfied that it would be feasible to devise a system which would be suitable to this country's circumstances. However, I consider that an essential element of such a scheme should be the abolition of the parental contribution. To make this change would mean additional net costs in the early years of any new scheme. I also considered, as part of my review, the desirability of extending a loans scheme to include those courses for which students have to rely on discretionary awards, but that would, of course, mean further additional costs. Since in present economic circumstances the Government does not feel able to provide the extra funds that would be entailed by either change, I have concluded that the existing system of student support by means of grants only should be retained.

MAD

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Mark Carlisle QC MP
Secretary of State
Department of Education and Science
Elizabeth House
York Road
London SE1 7PH

10 April 1981

Dear Mark,

STUDENT LOANS

Thank you for sending me a copy of your letter of ~~8~~ April to Willie Whitelaw. attached

I am afraid I do not think your draft answer as it stands attached is entirely in accordance with H Committee's decision of 30 March, and I would therefore like to suggest a change in it.

The coupling of abolition of the parental contribution with the loans proposal reflects what is recorded in the Home Secretary's summing up. But the proposal to extend the scope of the mandatory system to cover the present discretionary area is quite separate. It does not feature in the summing up or, therefore, in conclusion three. If you feel that it must be mentioned, nonetheless, I would prefer it to come at the end of your answer. I therefore suggest that the relevant sentence should become the last sentence, but with a reference to the costs involved, as follows:

> "I also considered, as part of my review, the desirability of extending a loans scheme to include those courses on which students have to rely on discretionary awards, but that would of course mean further additional costs."

In consequence, the present penultimate sentence should start:

> "To make such a change....."

I am sending copies of this letter to the Prime Minister, H Committee colleagues, and Sir Robert Armstrong.

Yours Leon

LEON BRITTAN

CONFIDENTIAL

cc HO NIO
LCO DHSS
CDL D/TRANS
LPO CH SEC, HMT
D/EMP CWO
DOE CPT GENT AT ARMS
SO
WO

HS

10 DOWNING STREET

From the Private Secretary

9 April 1981

Student Loans

The Prime Minister has seen a copy of your Secretary of State's letter of 8 April to the Home Secretary.

As you know, the Prime Minister was concerned about the prospect of an announcement on student loans, because she felt it likely to cause considerable confusion and anxiety, whilst satisfying no-one. Nevertheless she recognises that the Government's consideration of the matter has been sufficiently well known to make some statement necessary. Dr. Boyson's Answers at Question time early in the week clearly foreshadowed a public announcement. The Prime Minister is therefore content that your Secretary of State should give a Written Answer on 15 April, in view of the timing considerations you mentioned to me on the telephone.

She has one comment on the text. She believes that the present Answer will lead to the Government being tackled about the phrase "for the time being". She would prefer to see this deleted. The Government would clearly have to give the arrangements further consideration if, in the future, it became possible to introduce a scheme along the lines discussed in H.

I am sending copies of this letter to the Private Secretaries to the members of H Committee and to David Wright (Cabinet Office).

M. A. PATTISON

Peter Shaw, Esq.,
Department of Education and Science.

CONFIDENTIAL

E.R.

PRIME MINISTER

STUDENT LOANS

Mr. Carlisle does propose to make a statement about student loans, in line with the conclusions of H Committee. He is aware of your reservations, but believes that something must be said because of the expectations that have been aroused in the knowledge that the Government was examining the matter. Rhodes Boyson's Answers to Questions yesterday have effectively committed Mr. Carlisle to a public announcement.

His intention is to give the attached Written Answer next Wednesday. Initially, it looked as if he would refer to a decision in principle favouring a mixed system, which could not be implemented for lack of finance. The draft is more a statement of personal view, which is overruled for the foreseeable future for financial reasons. He has chosen Wednesday, so that the announcement is not made whilst the Federation of Conservative Students are in Conference on Monday and Tuesday. Loans are a highly controversial matter within FCS, and the press might try to write this up. Are you prepared to agree that he should give this Answer?

Yes - but we shall be attacked about the phrase "for the time being". Can we not delete it? We should have to reconsider the matter if ever we were going to introduce such a scheme. MT

MAP

8 April 1981

CONFIDENTIAL

CF

15

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

Rt Hon William Whitelaw CH MC MP
Secretary of State for the Home Department
50 Queen Anne's Gate
LONDON
SW1H 9AT

8 April 1981

Dear Willie,

STUDENT LOANS

Following H Committee's decision on student loans on 30 March, I have been considering how and when to make a statement to Parliament. My conclusion is in favour of an arranged written answer for Wednesday 15 April. I enclose for your information the text of what I propose to say.

I am copying this letter to the Prime Minister, in view of her interest in the matter, to colleagues on H Committee and to Sir Robert Armstrong.

Yours ever

Mark.

MARK CARLISLE

CONFIDENTIAL

DRAFT WRITTEN QUESTION

To ask the Secretary of State for Education and Science, if he will make a statement on the question of introducing a loans scheme for student support.

MARK CARLISLE

After studying a number of possibilities and taking into account the experience of other countries who operate a loans scheme for student support, I believe that there would be considerable merit in a system which would replace the present system of grants by a scheme of student support involving a mixture of grants and loans. I am also satisfied that it would be feasible to devise such a system which would be suitable to this country's circumstances. However, I consider that an essential element of such a scheme should be the abolition of the parental contribution. I also considered, as part of my review, the desirability of extending a loans scheme to include those courses on which students have to rely on discretionary awards. To make either of these changes would mean additional net costs in the early years of any new scheme. Since in present economic circumstances the Government does not feel able to provide the extra funds that would be entailed, I have concluded that [for the time being] the existing system of student support by means of grants only should be retained.

FROM:

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

2.

LORD CHANCELLOR

HOUSE OF LORDS,
SW1A 0PW

RESTRICTED

6th April, 1981

The Right Honourable
William Whitelaw, CH, MC, MP,
Secretary of State for the
Home Department,
Home Office,
50 Queen Anne's Gate,
London,
SW1H 9AT.

You remember that - converted previously. MS

Prime Minister.

Lord Hailsham nails his colours to the mast, despite the tentative conclusions of H Committee on student loans. MAP 7/4

Dear Willie:

I feel constrained to place on record the reasons for my strong, and, I fear unalterable, opposition to student loans in any form, whether in the mixed form discussed in H on Monday, 30th March or, I fear, in any other form. My reasons are as follows.

(1) It is wrong in principle to place under a burden of debt of some thousands of pounds on what, by any definition, is the most talented stratum of our youth at the very time when they will be seeking to make a start in life, get married, have children and buy a house. For some reason totally obscure to me the CPRS advance the assertion, unsupported by any evidence, that it will make undergraduate students work harder, become more highly "motivated" (whatever that means) and generally behave better. I would have thought that the only effect would be to deter potential graduates from entering tertiary education at all and, if the prospect of a degree failed to "motivate" them, it is far from apparent to me why the prospect of repaying a loan should do so.

(2) It would be very highly regressive as regards future vocational intention. The pure scientist who, in the nature of things, will have to work for a doctorate after his first degree in order to enter a scientific career, the future University teacher, and the school teacher (particularly the specialist) who, on the whole, have not the prospects of the professional classes or the postulants for industrial employment, would find the burden of debt disproportionately difficult to bear. The same, mutatis mutandis, would apply in any other field of pure scholarship. The loan system would deter many from pursuing a life of scholarship.

(3) So far as regards the drop outs, the failures, and the emigrants (the so-called "brain drain") the loan scheme would be totally unenforceable in practice. To others it would be a positive incentive to emigration.

(4) Either tertiary education is a good thing to provide for our talented youth, or it is not. I am convinced that it is. The state will benefit from the trained and disciplined talent, both indirectly by reason of their services, and directly by their contributions to direct taxation. To saddle them with debt in addition would be as foolish as it would be odious.

(5) The scheme as envisaged in its earlier stages would cost a minimum of £100 million a year. It would certainly be abandoned, if only because of its inherent fatuity (but also because it would prove unworkable) before it ever yielded a brass farthing in recovered loans. There would thus be a net addition to expenditure.

(6) It is said by my Conservative colleagues that we should observe Swedish experience, which is the product of thirty years of almost uninterrupted Socialist rule. I wonder how many of them have read a recent (and most illuminating) book about Sweden, entitled "The New Totalitarians". Apart from any other comment, I wonder whether Sweden, if it had the advantage of our own system, would have adopted any other.

(7) I wonder whether any of my colleagues care whether we win the next election or not. I issued a similar warning about the abolition of Resale Price Maintenance in 1964. What price a "Property Owning Democracy", when we saddle our youthful graduates with £6,000 of debt and our non-graduates with none?

I am sending a copy of this letter to the Prime Minister, to members of H and to Sir Robert Armstrong.

yrs:

Q.H.

FILE

VLG

CONFIDENTIAL

cc HO
CO

2 April 1981

The Prime Minister has seen the minutes of H Committee's discussion on student loans. As I told you on the telephone, she is somewhat concerned about the way in which the proposed Statement may be received. She sees the prospect that the announcement might cause considerable confusion and worry to many people whilst pleasing no-one.

She understands that there is some pressure for the Department to make clear its position, in the light of speculation over the last few months. I should nevertheless be grateful if you would ensure that a draft of the proposed announcement reaches us in good time for the Prime Minister to consider it and comment before your Secretary of State is committed to any particular timing.

I am sending copies of this letter to Stephen Boys-Smith (Home Office) and David Wright (Cabinet Office).

M. A. PATTISON

Peter Shaw, Esq.,
Department of Education and Science.

CONFIDENTIAL

Action

CONFIDENTIAL

Education

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

H(81)27

COPY NO 2

25 March 1981

Prime Minister

CPRS are unimpressed by Mr Carlisle's presentation on students loans, which you saw earlier (now below)

MAP 25/3

CABINET

HOME AND SOCIAL AFFAIRS COMMITTEE

STUDENT LOANS

Memorandum by the Central Policy Review Staff

The proposals of the Secretary of State for Education and Science in H(81)26 are for the introduction of a mixed loans/grant system for advanced

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(a) Is the wholesale replacement of discretionary grants for adult students a necessary part of the package? It accounts for around two-thirds of the additional costs in the early years. The case for linking major changes on discretionary grant to a change affecting the support system for those on mandatory grant is not in our view sufficiently made out. The problems of discretionary grants may well deserve separate consideration (including options which are selective as between different types of courses), but the CPRS question whether action on this front need form part of a quid pro quo for loans.

(b) Need abolition of the parental contribution be fully delivered from the commencement of a loans scheme? The CPRS agree with the Secretary of State

2.

ACTION

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THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

H(81)26 COPY NO 2
23 March 1981

MO

Prime Minister

Mr Carlisle has identified a viable student loan scheme. But it could require an additional £150m in the 3rd year of operation, and the Treasury are ruling out extra money for DES to implement it. This leaves him in the position described in para 10 below.

MAP 24/3

CABINET

HOME AND SOCIAL AFFAIRS COMMITTEE

STUDENT LOANS

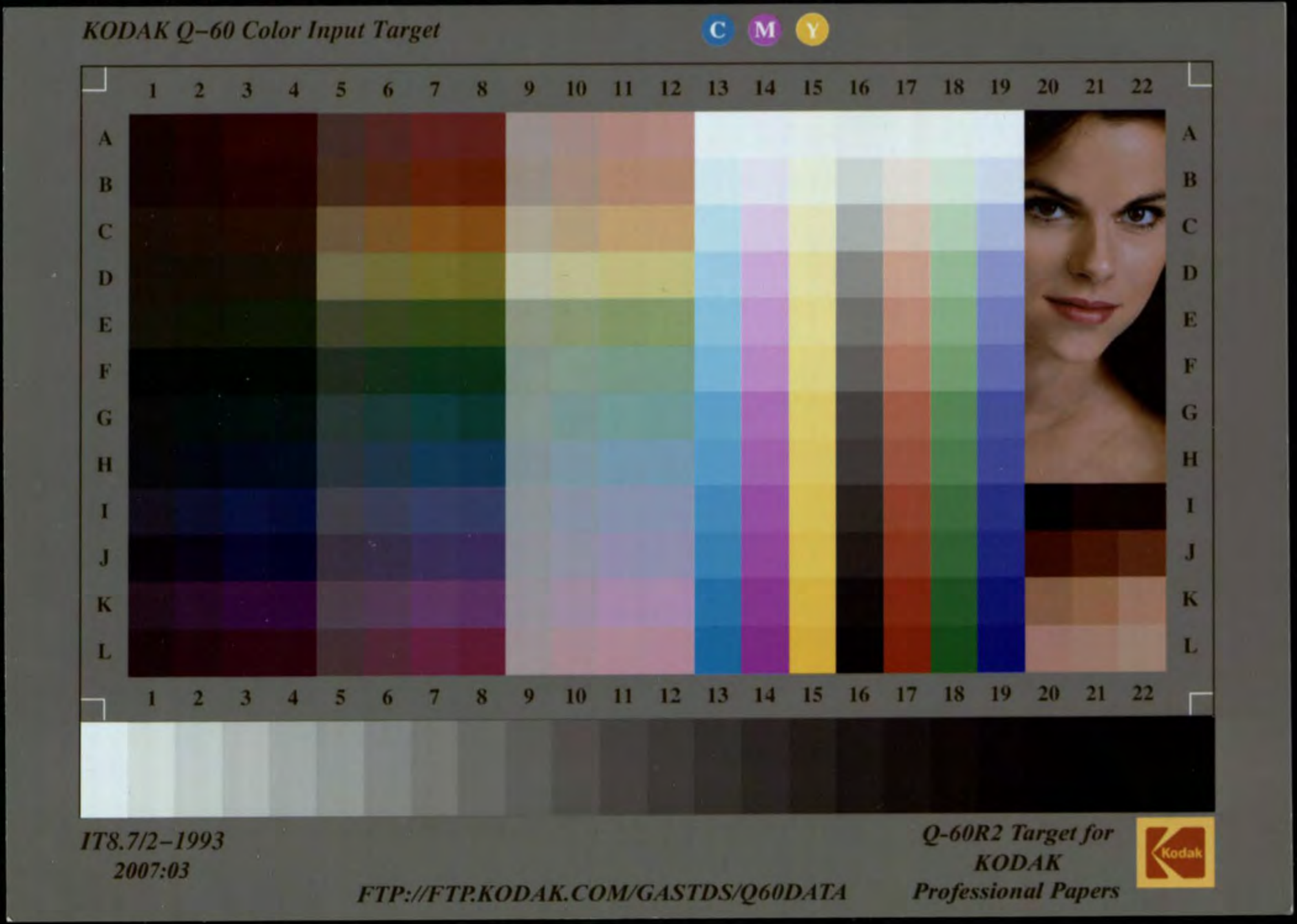
Memorandum by the Secretary of State for Education and Science

1. Over the past months I have been examining a variety of

CONFIDENTIAL

students under the age of 25 are means-tested on parental income and what the student receives assumes a parental contribution which is not always paid. It is very difficult to defend this system in today's social climate and when adult franchise begins at 18. As for the second aspect, awards are available as of right to students taking degree courses, initial teacher training and some other selected advanced courses. Others, including those taking a variety of advanced courses of a professional or vocational character, have to rely for support on discretionary awards from local education authorities (LEAs). This system has always been criticised for differentiating unfairly against those wishing to take courses of professional training. But whilst discretionary awards were generally available for them the system could to some extent be defended. However, the result of increasingly tight constraints on local authority spending in recent years has been a considerable reduction in the number of discretionary awards. The situation has already become so serious that I am convinced we shall have to seek a remedy in the not too distant future. This can only be achieved by extending the list of courses eligible for mandatory awards or by a system of loans.

5. In considering the options that might meet these essential requirements, I paid particular attention to the possibility of a scheme of loans financed by the commercial banks. However, the banks have made it clear that they are not eager for business of this kind and that they would expect terms, particularly on interest rates and guarantees against default and uncommercial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