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3003

PREM 19/2650

MT

PART TWO **SECRET**

Confidential Filing.

Student Loans.

Student Awards.

PREM 19/2650

EDUCATION

Part 1: March 1981

Part 2: June 1986.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~9.10.86.~~		~~15.7.88~~					
~~16.~~		~~20.7.88~~					
~~18.6.86~~		~~26.7.88~~					
~~4.12.86~~		~~28.8.88~~					
~~5.12.86~~		~~19.9.88~~					
~~8.12.86~~		~~29.9.88~~					
~~15.12.86~~		~~26.10.88~~					
~~7.1.87~~		31.10.88					
~~12.1.87~~		~~8.11.88~~					
~~23.1.87~~		~~9.11.88~~					
~~2.2.87~~							
~~4.3.87~~		~~9.6.89~~					
~~2.4.87~~		~~6.6.89~~					
~~21.4.88~~		~~12.6.89~~					
~~6.6.88~~		~~27.6.89~~					
~~6.5.88~~		~~4.7.89~~					
~~17.5.88~~		~~6.7.89~~					
~~22.5.88~~		~~17.11.89~~					
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~~14.6.88~~		~~22.12.89~~					
~~16.6.88~~		9.1.90					
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~~30.6.88~~		~~10.1.90~~					
~~4.7.88~~		~~20.12.89~~					
~~13.7.88~~							

● PART 2 ends:-

AT to PM 22.12.89

PART 3 begins:-

SS/DES to CST 10.1.90

10 DOWNING STREET

Prime Minister

The Lord Privy Seal asked me to draw to your attention the hostility to the Student Loans Bill expressed by a number of Conservative Lords Boyd Carpenter, Rippon and Beloff.

Cols 345 - 349

AT
22/12

[VISCOUNT DAVIDSON.]

satellites for which the UK has provided specific remote sensing instruments.

Lord Tordoff: My Lords, is the noble Viscount aware how pleased we are on these Benches to see all the green plants on the Government Back Benches flourishing at this time of year?

Viscount Davidson: Yes, my Lords.

Student Loans

11.24 a.m.

Viscount Davidson: My Lords, with the leave of the House I shall now repeat a Statement being made in another place by my right honourable friend the Secretary of State for Education and Science. The Statement is as follows:

"With permission, Mr. Speaker, I would like to make a Statement on the administration of student loans.

"I reported to the House yesterday—at the earliest opportunity—the background to the decision of the participating financial institutions to withdraw from the Student Loans Company. I indicated then that I would be happy to make a Statement today. The main points are as follows:

"The objectives, principles and framework of the scheme as outlined in the Education (Student Loans) Bill remain completely unchanged. I regret the banks' withdrawal but it affects neither the policy nor the Bill.

"As I announced yesterday, arrangements are now being made for the Student Loans Company to pass into government ownership. This will ensure that the preparations for the scheme can continue smoothly. A great deal of the preparatory work already undertaken is relevant to the new approach. The banks have agreed to contribute £0·5 million to these preparatory costs.

"The new approach may even be a cheaper option. It has always been the case that the Government would fund the administration of the scheme as well as the loans. We were prepared to pay a fee to the financial institutions in order to secure the benefits of their branch networks for students.

"The main result of the institutions' decision will be less easy access to loans for students. I would have preferred them to have that convenience. But the essential point is that nothing in the decision of the institutions alters either the Bill or the analysis behind it. The Bill will continue on course".

My Lords, that concludes the Statement.

11.26 a.m.

Lord Peston: My Lords, I thank the noble Viscount for the Statement. However, I am bound to say that for complacency and lack of content it exceeds any Statement that I have heard in your Lordships' House.

Is the noble Viscount aware that his right honourable friend the previous Secretary of State for Science and Education said in another place on 19th June 1989 (at cols. 22 and 23 of Commons *Hansard*):

"It is right that this scheme should be administered in the private sector, as our financial institutions possess skills in information and banking systems that are not readily available to the public sector".

He also said:

"We have had discussions with a number of banks and other financial institutions. I am clear that there will be substantial interest in participation in the scheme, subject to the negotiation of the final contract. In particular, it is clear that the major clearing banks will be ready to participate in the scheme".

He ended by saying:

"That must be their decision, but I am confident, from assurances given personally to me, of substantial interest in participating in the scheme".

That is the background to this extraordinary Statement today.

Perhaps I may draw your Lordships' attention to the words in the Statement that:

"arrangements are now being made for the Student Loans Company to pass into government ownership".

We have an extraordinary example of the Government nationalising a company almost before it has been privatised.

One has to ask the noble Viscount some substantive questions, even though the Statement contains nothing. What scheme are we now really to have for student loans? Do the Government themselves even know what scheme will eventually be put into operation? Since costs have been incurred in order to persuade the banks to join the scheme, can the noble Viscount tell us the extent of the squandering of public money that has occurred here? I am told, and one has read, that at least £1 million has already been spent. If there were ever a case for an inquiry by the Public Accounts Committee this is it.

What about future costs? Have the Government any idea of what they are involving themselves in? Is there nothing more to be said about the extraordinary suggestion in the Statement that the new approach may even be a cheaper option? How can we possibly believe that? If it is a cheaper option, why was the new approach not the original approach?

Finally, many of us believe that we have to examine student finance. It is not a subject that we feel is over and done with. Is it not the time for the Government to abandon this totally ridiculous Bill, to do some thinking on the subject—and many of us who have worked in the field would be willing to help the Government in order to get the subject straightened out—and then to come back to the other place and to your Lordships' House with a serious scheme for the reform of student finance?

Lord Jenkins of Hillhead: My Lords, this is a remarkable Statement. As the noble Lord, Lord Peston, indicated, the Government are prepared to overcome even their anti-nationalisation dogmatism in order to pursue what they regard as a higher dogmatism of pressing on with the Bill, which quite clearly commands virtually no support. The banks regard it as undesirable and, according to most

Viscount Davidson: My Lords, my right honourable friend the Secretary of State for Education and Science announced in November an increase of £175 million in the science budget for the period 1990-91 to 1992-93, of which over £24 million has so far been allocated to equipment needed for environmental research. My right honourable friend is at present considering the Advisory Board for the Research Councils' advice on the allocation of the remainder of the science budget for the next three years and his decision will be announced in due course. It will be for the research councils to decide their future priorities for specific research areas within the overall totals allocated to them.

The Viscount of Oxfuird: My Lords, I thank my noble friend for that Reply. Can he possibly indicate to the House how he believes the increased funding will benefit the research undertaken by this country?

Viscount Davidson: My Lords, part of the additional funding will contribute to the construction of the Royal Research Ship "James Clark Ross" which will play a key role in support of research programmes in the Antarctic. Funding is also being provided for the construction of an instrument for use on board a proposed earth remote sensing satellite for launch in 1993.

Lord Molloy: My Lords, is the noble Viscount aware that the statement he has just made about research to protect the environment is most welcome? However, are the Government prepared to accept that certain aspects of the clean air legislation, which has made such a massive contribution to clean air, have been neglected by some local authorities? Does he accept that the environment could be protected if those local authorities were reminded of their responsibilities and of their powers to prosecute where it is absolutely necessary?

Viscount Davidson: My Lords, that question is rather far from the Question on the Order Paper, but I take the point made by the noble Lord.

Lord Ezra: My Lords, does the noble Viscount agree that improved energy efficiency can contribute most to improving the environment in future years? Is any of the additional funding likely to be allocated to basic research on energy efficiency?

Viscount Davidson: My Lords, my right honourable friend is at present considering the advice of the Advisory Board for the Research Councils on the allocation of the Science Budget. I am unable to comment at the moment on whether that advice includes a recommendation on the lines suggested by the noble Lord. I shall draw his remarks to the attention of my right honourable friend.

Lord Hatch of Lusby: My Lords, further to the question of the noble Lord, Lord Ezra, in view of the cuts in the budget of the Energy Efficiency Office, will the Minister impress on his right honourable friend the necessity to increase research into energy efficiency? Since I assume that the Members of the new green Government opposite all use low energy electric light bulbs, can the Minister advise the House where such bulbs can be purchased? In the United States they are being given away by public utilities but in this country there seems to be no supply of them.

Viscount Davidson: My Lords, that also is a question on energy efficiency. This Question relates to environmental research.

Lord Peston: My Lords, I assume that the Minister of State at the Department of Industry will be advising us as to the places where we can buy light bulbs. It must be within his department's area of responsibility.

This is an important question and the noble Viscount was right to emphasise the context of the science budget. However, is he not aware that the Advisory Board for the Research Councils has asked the Secretary of State for almost twice the increase which it received and that therefore its view is that the science budget is seriously under-financed? Does he agree that if that is the case, *a fortiori* the environmental research budget would to too low?

More generally is the noble Viscount not aware that the costs that this country will incur as a result of environmental damage are measured in billions? Does he agree that therefore the research sums that we are talking about, in millions, would be highly cost-effective and should be very strongly supported?

Viscount Davidson: My Lords, I do not believe that it is the Government's job to advise on purchasing light bulbs. However, I shall do anything I can to help the noble Lord.

The settlement represents a substantial increase in resources. The science budget in 1990–91 will be nearly 10 per cent. more in cash terms than in the current financial year or 4·7 per cent. higher in real terms. I can tell the noble Lord that the chairman of the ABRC has welcomed the increase. The science budget in 1990–91 will be more than 28 per cent. higher in real terms than when the Government came to office in 1979.

Lord Hatch of Lusby: My Lords, does the noble Viscount recognise that energy efficiency is a part of environmental research, and an important part? Will he answer my question and the question of the noble Lord, Lord Ezra? Will part of the new allocation be devoted to research on energy efficiency?

Viscount Davidson: My Lords, I have answered that question, and anyway it is a separate issue.

The Viscount of Oxfuird: My Lords, can my noble friend indicate what international collaborative research projects this country is involved in?

Viscount Davidson: My Lords, the United Kingdom is playing a major role in a range of international research projects including the World Ocean Circulation Experiment, the Joint Global Biogeochemical Ocean Flux Study, the Ocean Drilling Programme and a range of earth observation

informed academic opinion, including that of the noble Lord, Lord Peston, my noble friend Lord Russell and the noble Lord, Lord Beloff, the scheme is highly undesirable. That view is wholly shared by all the authorities of the University of Oxford, primarily on the ground that they are convinced that it will narrow rather than widen the social base of student entry.

That is a serious matter for consideration. Has the time not arrived when the Government should take away this meaningless little enabling Bill and look at it again, as the noble Lord suggested? Do the Government never listen? Do they never recognise that emulation of the seamanship of the captain of the "Titanic" is not the highest form of statesmanship?

Viscount Davidson: My Lords, I am not sure whether I am grateful to the noble Lords, Lord Peston and Lord Jenkins of Hillhead, for their comments. I am not surprised by them, but I venture to remark that the Opposition parties have made quite a meal of a comparatively simple Statement. The Bill is in Committee stage in another place and will come before noble Lords in due course. I can tell the House that without any doubt at all. Government policy is to secure the introduction of the student loan system and to give extra resources to students. That remains our policy. The student loans company will pass into the ownership of the Government, so as to ensure that preparation for the introduction of the scheme may continue without interruption. We are pressing ahead with the legislation. I listened to the noble Lords and I promise them that I shall draw my right honourable friend's attention to what has been said this morning in the House, but, standing at the Dispatch Box, I cannot go any further.

Lord Boyd-Carpenter: My Lords, is my noble friend aware that unhappiness about the scheme is not confined to the other side of the House? Is he also aware that, on the best possible outcome, it must be many years before any saving to public funds results from it? In those circumstances, would it not be wise to use the Christmas Recess to give further thought to it?

Viscount Davidson: My Lords, I read the papers. I am aware that there is a certain amount of disquiet in many quarters about the Bill. Again, I shall draw my noble friend's remarks to the attention of my right honourable friend.

Lord Rippon of Hexham: My Lords, I welcome the principle of student loans, but is my noble friend aware that the Bill as drafted is an affront to Parliament and gives no details whatever of any arrangements for student loans? Should it not be withdrawn until the Government can say something about what is intended?

Viscount Davidson: My Lords, again, I cannot say yes or no to that question, but I shall draw it to my right honourable friend's attention.

Lord Beloff: My Lords, perhaps I may ask the noble Viscount to look at col. 643 of our *Hansard* of 9th November 1988, when the scheme, in the form of a White Paper, was first brought before the House and we were told that two years had gone into its preparation. I said on that occasion that since the scheme was to be administered by the banks, it might have been wise to consult them during the preparation of the White Paper. I ventured to suggest to noble Lords that they might well find the terms unpalatable and that in the end they might well tell the Government to go away. If, with my limited sources of information, I could be wholly accurate in November 1988, why has it taken over a year for the Government to realise the mess that they have got themselves into?

We know—I believe this is why my noble friend Lord Boyd-Carpenter referred to the possibility of further thought—that the present Secretary of State for Education and Science had nothing to do with the preparation of the White Paper or the subsequent Bill. We owe that to the ingenuity of Mr. Robert Jackson, widely known as the Pol Pot of academia, and I see no reason in conscience why a new Secretary of State is bound to accept every part of a *damnosa hereditas* particularly when, as my noble friend Lord Boyd-Carpenter argued, it will make no difference to public expenditure for some years to come if the scheme or some new scheme of student finance involving repayment, be introduced. It is officially accepted that the Treasury could not possibly benefit until the next century.

In the light of that, what is the tremendous hurry? We have serious business for the House to transact. Why should the Government persist in saying that they will bring forward a Bill which has no support in any quarter of the House, and which will take up valuable time which could be devoted to more important things? I seriously appeal through my noble friend the Minister to the new Secretary of State to give due consideration to what the noble Lord, Lord Peston, has said. I am quite sure that, if he were willing even at this late stage to consult the Committee of Vice-Chancellors and Principals and the Committee of Directors of Polytechnics, it should be possible to work out a scheme which they would assist in putting into place, instead of alienating them by persisting in a scheme of a variant of a scheme which they have repeatedly told the Government is impossible.

Viscount Davidson: My Lords, I shall ensure that my right honourable friend the Secretary of State is made aware of the remarks and feelings of my noble friend, if he is not already aware of them. As to the occasion in November 1988 to which he referred, perhaps I should say in the words of the song, "I remember it well".

Baroness White: My Lords, as the noble Viscount has said that the Opposition are making something of a meal of this, does he agree that it is the best Christmas dinner that any Opposition had for many years?

Viscount Davidson: My Lords, I can see that they are enjoying it.

Earl Russell: My Lords, I believe that the situation is a little too important for the scoring of party points. Rather than doing that, I should like to turn our attention to the question of whether students entering higher education next October, and their parents, may count on some visible means of support. With that in mind, I should like to ask the noble Viscount whether he can give a copper-bottom guarantee, or, if not, whether he will ask his right honourable friends the Secretary of State and the Chancellor of the Exchequer whether they can give such a guarantee, that student grants will continue to increase in line with inflation unless or until a workable student loan scheme is in place.

I should also like to ask the noble Viscount about the timetable. He is no doubt aware that the Price Waterhouse report has already expressed grave misgivings about whether student loans can be in place for the next academic year. If that does not make the preparatory work slower it should do. Many of us in all quarters of the House have the gravest doubts as to whether the scheme can possibly be made effective for the next academic years and view with grave misgivings the prospects, should it be on the Statute Book, but not in place. Since I agree wholeheartedly with the noble Lord, Lord Rippon of Hexham, about the contents of the Bill, perhaps I may ask the Government to take it away and bring it back when it is ready.

Viscount Davidson: My Lords, I am sure that the noble Earl will realise that I am not in a position to give any copper-bottomed guarantee. I listened to what he said and to the misgivings that have been expressed in the House. I can assure the House that these comments will be passed on to my right honourable friend.

Lord Renton: My Lords, is my noble friend aware that although the Bill is indeed an enabling Bill, the way in which the Minister could exercise his powers under the Bill is very fully and precisely described? He will not have much discretion except to say whether or not his power should be used at all.

Viscount Davidson: Yes, my Lords, that is quite correct.

Lord Grimond: My Lords, now that this scheme, which the Government assured us was so perfect, has collapsed will the Minister ask his right honourable friend to consult again with the Vice-Chancellors and Principals and so forth on the other two schemes that have been put forward in some detail—either for graduate tax or for linking loans to national insurance? There are many people in this country who think that these are preferable to the current scheme in any case. Does he not agree that surely now they should be re-examined?

Viscount Davidson: My Lords, I shall of course ask my right honourable friend to look at it again.

Hybrid Instruments: Select Committee

The Chairman of Committees (Lord Aberdare): My Lords, I beg to move the first Motion standing in my name on the Order Paper.

Moved, That, as proposed by the Committee of Selection, the Lords following, with the Chairman of Committees, be named of the Select Committee on Hybrid Instruments:—

Cawley, L.
Cork and Orrery, E.
Dilhorne, V.
Lloyd of Kilgerran, L.
Prys-Davies, L.
Thurlow, V.—(*The Chairman of Committees.*)

On Question, Motion agreed to.

House of Lords Offices: Select Committee Report

11.41 a.m.

The Chairman of Committees: My Lords, I beg to move that the first report from the House of Lords Offices Committee be agreed to. Perhaps I may draw the attention of your Lordships to two items in this report. With regard to item 4, the committee recommends that during Committee and Report stages seating should be provided on an experimental basis in the clerks' box for up to three advisers to those Peers who sit on the Opposition Front Benches. Hitherto, advisers to the Front Benches opposite have been located below Bar and there have been various difficulties with that arrangement. The recommendation is that up to three advisers should be able to sit in the clerks' box, which is the one immediately opposite the civil servants' box and which is not usually very fully occupied by the clerks during Committee and Report stages. I hope that your Lordships will agree to that experiment.

The other matter is item 7 relating to insurance for noble Lords. I have been asked by various members of the committee particularly to make known to your Lordships that this insurance policy exists. It is a personal accident insurance policy and covers Members of the House against the risk of death or injury on days on which they are engaged on parliamentary business within the precincts of the Palace of Westminster or at ministries or other government-owned premises in London, including transit between and while at ministries outside London. I hope that this scheme will not be of great use to any noble Lords present. However, I thought your Lordships should know about it. I beg to move.

Moved, That the 1st Report from the Select Committee be agreed to. [HL Paper 14].—(*The Chairman of Committees.*)

CC PU
CC DC.

SG2-26

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

ELIZABETH HOUSE
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1. DM - to see
2. NBPM
PRCG 21/12

Paul Gray Esq
Private Secretary
No10 Downing Street
LONDON
SW1A 2AA

21 December 1989

Dear Paul

I enclose a copy of the Statement that the Secretary of State intends to make today on the student loans scheme.

You will appreciate that, in the circumstances, it was not possible to observe the normal timescale for prior circulation. This Statement adds little of substance to the parliamentary Answer that the Secretary of state made yesterday.

Yours sincerely

Stephen

S T CROWNE
Private Secretary

STATEMENT BY THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE, 21 DECEMBER 1989

With permission, Mr Speaker, I would like to make a statement on the administration of student loans.

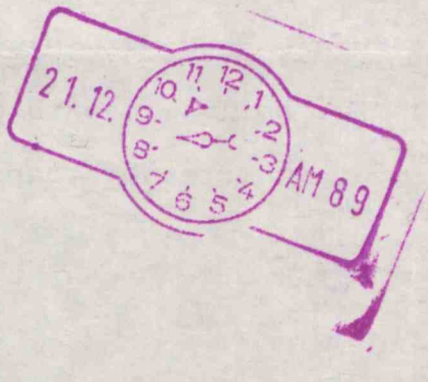
I reported to the House yesterday - at the earliest opportunity - the background to the decision of the participating financial institutions to withdraw from the Student Loans Company. I indicated then that I would be happy to make a statement today. The main points are as follows.

The objectives, principles and framework of the scheme as outlined in the Education (Student Loans) Bill remain completely unchanged. I regret the banks' withdrawal but it affects neither the policy nor the Bill.

As I announced yesterday, arrangements are now being made for the Student Loans Company to pass into Government ownership. This will ensure that the preparations for the scheme can continue smoothly. A great deal of the preparatory work already undertaken is relevant to the new approach. The banks have agreed to contribute £0.5 million to these preparatory costs.

The new approach may even be a cheaper option. It has always been the case that the Government would fund the administration of the scheme as well as the loans. We were prepared to pay a fee to the financial institutions in order to secure the benefits of their branch networks for students.

The main result of the institutions' decision will be less easy access to loans for students. I would have preferred them to have that convenience. But the essential point is that nothing in the decision of the institutions alters either the Bill or the analysis behind it. The Bill will continue on course.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File to c: Student-loans

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 December 1989

STUDENT LOANS

The Prime Minister had a brief discussion with your Secretary of State following Cabinet this morning about the issues raised in his minute of 18 December. The Chief Secretary, Sir Robin Butler and Mr. Richard Wilson (Cabinet Office), and Professor Brian Griffiths were also present; the Chancellor of the Duchy of Lancaster was present for part of the discussion.

Your Secretary of State said he was extremely annoyed at the attitude of the banks, but he thought there was little or no prospect of persuading them to reconsider their decision to pull out of the student loans scheme. However, he had concluded he should make one last attempt. Should they continue to resist, he felt the right approach was to press ahead with the student loans scheme operated by a Government-owned company, indicating that in due course steps would be taken to bring in other shareholders or to privatise the company. Presentationally, it was important to play down the significance of the administration of the scheme; this was a detail, and it should be emphasised that the basic principles of the student loans scheme were intact.

In discussion, the following points were raised:

- If the existing banks did pull out, it was for consideration whether other banks and financial institutions could be persuaded to take their place. But it seemed clear that it was now too late to persuade other institutions to run the scheme in time for it to be launched within the timescale desired.

- Consideration would need to be given to the details of the Government-owned company, in consultation with other interested Ministers.

- Consideration would also need to be given to the timing of an announcement that the banks had withdrawn and that the administration would now be taken over by a Government-owned company. One possibility would be to defer a statement until after the Christmas Recess, but it was unlikely that the story would hold that long. This pointed to making a interim Parliamentary Statement - by means of a Written Answer - on 20 December, although it would probably not be possible to give full details at that stage.

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Summing up the discussion, the Prime Minister said it was agreed that your Secretary of State should proceed on the lines set out in his minute of 18 December. If the banks withdrew, he would need to sort out the details of a Government-owned company with colleagues, and would need to consult the business managers on the arrangements for a Parliamentary Statement.

I am sending copies of this letter to Tim Sutton (Lord President's Office), Carys Evans (HM Treasury), Robert Canniff (Office of the Chancellor of the Duchy of Lancaster), Jim Gallagher (Scottish Office), Stephen Williams (Welsh Office), Murdo Maclean (Chief Whip's Office), and Sonia Phippard (Cabinet Office).

PAUL GRAY

Stephen Crowne, Esq.,
Department of Education and Science.

CONFIDENTIAL

cc PK

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

MT

Prime Minister

Bad news. John Macgregor needs a steer on the next steps before he sees Quinton tomorrow evening. If time permits you may want to speak to JM and as many of the other copy recipients who are available at the end of E(A) tomorrow morning.

PRIME MINISTER

STUDENT LOANS

John Quinton, Chairman of Barclays and the Committee of London and Scottish Bankers, has just told me that almost certainly the Banks will pull out of the student loans scheme.

RRCB 18/12

The purpose of this minute is to consult you and a small number of other colleagues about the consequences.

Background

You will recall that Kenneth Baker announced on 19 June that, following discussions with representatives of the Committee of London and Scottish Bankers, the loan scheme would be administered in the private sector. It was clear from his discussions with members of the CLSB that - subject to the outcome of the contractual negotiations - "a sufficient number of institutions" would wish to participate from the outset. Subsequently on 16 November I announced that Student Loans Company Ltd. was being formed as a company wholly owned by Barclays, Midland, Natwest, Royal Bank of Scotland, TSB, Girobank, Allied Irish Banks, Bank of Ireland, Northern Bank and

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Ulster Bank. Lloyds, the Bank of Scotland and the Clydesdale decided not to be involved at that stage. Since that time preparatory work has been going ahead with good speed.

On 7 December John Quinton told me that the participating banks began to be worried about the intensity of student activity against their involvement in the loans scheme: a number of accounts were being lost and Chairmen were being flooded with letters. They felt that it was important that Lloyds, in particular, should be persuaded to join in, as Lloyds was likely to receive most of the lost custom. After immediate consultation with the Chancellor decided that it would be desirable for the Governor of the Bank of England to see Sir Jeremy Morse, Chairman of Lloyds, in the first instance. He did so on Friday last, 15 December, the first occasion he could do so.

Morse told the Governor that Lloyds were "extremely unlikely to join the scheme" - not on grounds of principle but as a matter of commercial judgement. Mr John Quinton, Chairman of Barclays, told me at lunch-time today that he had spoken to both Morse and to Sir Kit McMahon of Midland. Morse had said that Lloyds were "virtually certain" to take no part, although retaining the public stance that they had not yet made up their minds. Quinton and McMahon had concluded that in that case the rest of the banks would pull out. I asked Quinton to give me 24 hours for reflection: I will speak to him again tomorrow (Tuesday) evening.

I had already arranged to see Morse on Wednesday morning.

It is most disappointing to see the banks climbing down in the face of such pressure from the NUS - especially given how much the banks owe to this Government's success in facing down far more severe union demands. But student loans have to go ahead anyway. Quite apart from our level of public commitment to them (the Bill is in Committee), they are a necessary ingredient of our plans substantially to expand higher education. So we now have a choice between 2 options:

A. to bring the maximum political pressure on the banks, particularly Lloyds, to run the scheme. They carry no risk, and will be paid for the work. They would not be easy to persuade; but the Opposition will make as much of it as they can if what they call our friends in the city are seen to abandon the scheme.

B. to accept that the banks are pulling out of the Company and proceed with an alternative in the public sector. There are several possibilities, of which keeping the Company itself in Government ownership is the course which may present the best hope of introducing student loans by September 1990 as planned.

In all my speeches on student loans, I have never focused prominently on this aspect of the scheme, regarding it as an administrative matter of much lesser importance than the objectives and principles of the scheme. I have explained publicly the Government's reasons for preferring a bank-based operation: that their branch networks will give students ready access to the loan facility, and that the banks have experience in advising individuals on financial matters and in handling personal loans and making sure of repayments. These are real advantages. Furthermore a privately owned Company can move much faster than we can on recruiting staff and setting up operations. So when I speak to Quinton tomorrow I shall of course make another attempt to keep the banks on board. But I judge that I am now unlikely to succeed: I cannot compel them to stand up to pressure exerted by students and their unions on banking operations. My only argument is the damage to their standing with Government and with the public if the Banks abandon us, we shall have to make plain where the responsibility lies.

However our main policy objective is to introduce loans to supplement grants for students' maintenance, not to have a private-sector operation as such. I had already set contingency planning in hand, and a Government-owned company, as in Option B above, represents my present thinking. I am not at all confident that this option will deliver the September 1990 start; we must be prepared for some delay (it would not be a disaster if it

started say from January 1991). A number of practical aspects remain to be worked out, including especially the questions of directors of the Company, of the recruitment and employment of staff, and of the handling of the Company's existing contracts: these can be pursued separately.

I therefore invite you and colleagues to agree -

i. that we should maintain our present policy objective of introducing student loans, if not in September 1990 at least as soon as possible thereafter;

ii. that I should make one last attempt to keep the banks in but that we may have to accept that the banks are pulling out, so that we should now go for a Government-owned Student Loans Company, with some of the features (e.g. senior management appointed from outside, at market rates) of a private-sector operation;

iii. that I should discuss the details with the colleagues most closely concerned;

iv. that I should make a brief statement in the Commons on Wednesday, 20 December - for the news needs to be announced, if we can secure this, on our terms, not on the banks'.

Copies of this minute go to Geoffrey Howe, John Major, Kenneth Baker, Malcolm Rifkind, Peter Walker, Tim Renton and Sir Robin Butler. I should be grateful if they would ensure that it is shown only to those with a genuine need to know.

JM

18 December 1989

CONFIDENTIAL

MS

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

17 November 1989

Dear Steve,

EDUCATION (STUDENT LOANS) BILL

The Prime Minister was grateful for the Lord President's minute of 15 November. In view of the points he makes she is content for the Bill to be introduced as presently drafted covering only loans for maintenance.

I am copying this letter to Stephen Crowne (Department of Education and Science), Gillian Kirton (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), Trevor Woolley (Cabinet Office) and to the Private Secretary to the Captain of the Gentlemen-at-Arms.

Yours,

Paul

Paul Gray

Steven Catling Esq
Lord President's Office

CONFIDENTIAL

file EAN

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 November 1989

Dear John.

STUDENT LOANS

The Prime Minister was grateful for your Secretary of State's minute of 14 November, which she has noted.

I am copying this letter to Private Secretaries to members of E(EP), Stephen Leach (Northern Ireland Office), Murdo Maclean (Chief Whip's Office), and to Sir Robin Butler.

Yours.
Paul

PAUL GRAY

John Ratcliff Esq
Department of Education and Science

KRP

Yes MS

Prime Minister CC PM
You raised the possibility of X following advice from Brian. Content now to proceed as the Lord President and John MacGregor propose? PRC 6 16/11

PRIME MINISTER

EDUCATION (STUDENT LOANS) BILL

X

Your Private Secretary copied to mine his letter of 13 November about the possibility of extending the Education (Student Loans) Bill to cover loans for fees as well as maintenance. This has particular implications for the Parliamentary handling of the Bill, so I have discussed the proposition with John MacGregor and the business managers.

John and I both see the attractions of this on policy grounds. It would keep open the option of introducing loans for fees at some point in the future and would maintain the signals we are giving the vice chancellors about changes in university funding. E(EP) has not, however, previously considered extending loans to fees. Widening the proposition in this way would therefore require clearance with other colleagues, including John Major.

The difficulties are presentational and parliamentary. The major presentational difficulty is that the White Paper on student loans spoke only in terms of loans for maintenance. That limitation has been repeated by colleagues publicly since, and stated in Party documents. If the Bill were published without being limited to maintenance, the change in our public position would be immediately noticed. A statement would be demanded and would have to be conceded. We would have to say that we had no immediate plans to introduce loans for fees but wished to ensure that this option was open in future. We should have put ourselves on the defensive in launching the Bill.

The business management problems flow from this. The Bill is highly controversial as drafted at present. John MacGregor has asked us to achieve Royal Assent by Easter in order that the new scheme can be introduced from 1 September. Adding to the controversiality of the Bill would add to the substantial

difficulties we shall already have in achieving this. John Belstead is particularly worried about handling in the Lords, where John Boyd Carpenter and Max Beloff, among others, are already known to be opposed to the Bill, though for different reasons. If, as is quite possible, we introduced the Bill without the limitation to maintenance and were asked in the House to insert such a limitation in the Bill, our judgement is that, to get the Bill through we would almost certainly have to concede this.

John MacGregor is worried about a further aspect - the impact which any heightened controversy about the Bill would have on the Banks. As his minute to you of 14 November confirms, he has had great difficulty in securing the Banks' involvement in the administration of the loans scheme. He would not welcome any development which made the Banks even more wary of the scheme.

John and I cannot therefore advise you in favour of changing the Bill at this late stage. But this certainly does not mean that we are ruling out the possibility of extending the loans scheme to cover fees at a later date. Once we have the Bill in place it would be a very simple matter to introduce a short amending Bill to extend loans to fees in the next Parliament if we wished to do so. We can make amply clear to the vice chancellors that the fact that the present Bill is limited to maintenance does not mean that we are going cool on them charging realistic fees.

We plan to introduce the Student Loans Bill in the Commons on 22 November; indeed this is essential if we are to keep to our timetable for the Bill. It would therefore be very helpful to know as soon as possible if you agree with our conclusion. If you would like a word, John and I are of course at your disposal.

I am copying this minute to John MacGregor, John Belstead, Tim Renton, Bertie Denham and Sir Robin Butler.

GH

15 November 1989

EDUCATION: Student loans Pt2



SECRETARY OF STATE FOR EDUCATION AND SCIENCE

MG

Prime Minister!
You will wish to be aware of this announcement. Given the Prorogation timetable I assume he must plan a statement tomorrow rather than Thursday.
PRCG 14/11

PRIME MINISTER

STUDENT LOANS

You will know that preparatory work is well in hand for the introduction of the student loans scheme. I am glad to be able to say that agreement has now been reached with a significant number of financial institutions on the terms on which they will establish the private sector company which will run the scheme; and on how contracts will be handled in the period before Royal Assent to the Student Loans Bill. A Memorandum of Understanding has now been put to them for signature and, provided they sign, I intend to announce that agreement by way of a Written Statement to the House on Thursday 16 November. I attach the text of what I propose to say.

But see Question in the House yesterday (Thursday)

I expect Ten banks, (Barclays, Midland, NatWest, TSB, the Girobank, 4 Northern Irish Banks and I think also the Royal Bank of Scotland) to agree to establish and wholly own a company, Student Loans Company Limited. Other institutions, including building societies, may come in later. The company will be responsible for preparatory work which will include the negotiation of a contract with Electronic Data Systems for the loans processing system; leasing and fitting out premises in Glasgow; appointing senior personnel; and taking all necessary steps to ensure that loans will be available to students in September 1990. The Company will continue to be assisted by Price Waterhouse. The Company will be funded through contracts with my Department for specific items of work and miscellaneous expenditure. The costs of those contracts will be met from estimates already approved by Parliament.

The Memorandum of Understanding (attached to the draft statement) embodies this agreement with the financial institutions. The Memorandum sets out the terms on which the financial institutions will be remunerated when the scheme is in operation. A transaction fee of £12 will be paid for each student loan application handled by a branch of a participating financial institution. It gives the financial institutions a reasonable return for their involvement in the scheme, while ensuring that they play a full part in counselling students on loan applications. All these arrangements have been agreed with Norman Lamont. The total administration costs of the scheme will be settled during the course of contractual negotiations with the systems suppliers and others: that figure will be no more than £20m and will be far less than many critics have suggested.

I believe that Thursday's announcement will represent a significant step forward. It shows that, contrary to the predictions of our critics, the banks are willing to co-operate in the implementation of the student loans scheme - though I have to say that their participation is reluctant rather than enthusiastic. The perceived unpopularity of the scheme has given a number of them cold feet. We are still on course for the introduction of loans in September 1990, but we shall not have an easy ride with the legislation. I discussed the Bill with the Lord President earlier this evening.

I thought you ought to know of this now because we need to go ahead with the announcement if possible before Prorogation, although there is still doubt overnight about one or two of the banks.

I am copying this minute to Geoffrey Howe, Peter Brooke, Tim Renton, John Belstead, members of E(EP) and Sir Robin Butler.

JM

Department of Education and Science 14 November 1989

[Approved by the Secretary of State,
and signed in his absence]

DRAFT ANNOUNCEMENT

Q. To ask the Secretary of State for Education and Science, if he will make a statement about the administration of student loans.

A. Agreement has been reached between the Government and a number of financial institutions on the next steps in preparatory work for the student loans scheme.

A company, Student Loans Company Limited, is being formed. The company will be wholly owned by Barclays Bank, the Midland Bank, the National Westminster Bank, the Trustee Savings Bank, the Girobank, the Royal Bank of Scotland, the Ulster Bank, the Allied Irish Banks, the Bank of Ireland and the Northern Bank. I am placing a copy of the Memorandum of Understanding, which has been signed by the participating financial institutions, in the Library of the House. Additional financial institutions will be invited to become shareholders in Student Loans Company Limited when a brochure is issued.

Contracts will be placed by the Government with Student Loans Company Limited for preparatory work on the students loans scheme, the cost of which in 1989-90 will be met from Estimates already approved by Parliament. The Company's first task will be to sign a contract for the central loans processing system. Contractual negotiations are already in hand.

Subject to the passage of the necessary legislation and to final agreement being reached between the Government and the financial institutions, the Government intends to enter into a contract with the Company for the administration of the scheme itself. As indicated in my predecessor's oral statement on 19 June (Official Report cols 21-22) the Government will fund the Company for the administrative costs of the scheme and for the loans themselves and will pay a transaction fee of £12 per student loan application per year in return for the costs incurred at the branches of the financial institutions where certificates of entitlement are presented. The Government and the participating financial institutions agree that this fee represents a reasonable return for the work involved.

I am also placing in the Library of the House a copy of the report prepared by Price Waterhouse on Stage 2 of preparatory work on the student loans scheme, in fulfillment of the undertaking given to the Hon Member for Blackburn in my Answer of 17 October (Official Report cols 89-90).

STUDENT LOANS SCHEME

MEMORANDUM OF UNDERSTANDING

The Secretary of State for Education and Science ("the Secretary of State") wishes to establish a student loans scheme ("the Scheme") and has requested Barclays Bank PLC, Midland Bank plc, National Westminster Bank PLC, TSB Bank plc, Girobank plc, [The Royal Bank of Scotland plc], Allied Irish Banks plc, Bank of Ireland, Northern Bank Limited and Ulster Bank Limited ("the participating financial institutions") to assist in connection with preparatory work regarding the Scheme. The Secretary of State and the participating financial institutions have reached the following understandings:

(1) The participating financial institutions will establish a company, which is intended to be known as Student Loans Company Limited, ("the Company"). The Company will undertake preparatory work on the Scheme which, subject to the enactment of the necessary legislation, the Secretary of State wishes to introduce.

(2) Prior to the enactment of the legislation referred to in (1) above, both the miscellaneous expenditure and associated liabilities of the Company and any costs and liabilities incurred by it in relation to specific items of preparatory work will, in each case, be funded by the Secretary of State pursuant to individual contracts between the Secretary of State and the Company. Any contract relating to the miscellaneous expenditure and liabilities of the Company will set out the nature and scope of the expenditure and liabilities to be funded, which will include the running costs and overheads of the Company and development costs of the Scheme. The Secretary of State will establish arrangements for reacting expeditiously to requests from the Company for specific contracts or further miscellaneous contracts. The cost of such funding in the financial year 1989-90 will be met from Estimates (amounting to £7.5 million) already approved by Parliament in connection with the Scheme. The Secretary of State recognises that the Company will have no other source of funding.

(3) The establishment of the Company does not commit the Secretary of State or the financial institutions named above to participating in the administration of the Scheme. That participation would be regulated by a contract which can be executed only after the enactment of the legislation referred to in (1) above. Where a financial institution does not participate in the Scheme, any shares held by it in the Company will be transferred to a third party.

(4) The contract for the administration of the Scheme, referred to in (3) above, will provide for a transaction fee of £12 (exclusive of VAT if applicable) for each application for a student loan in the academic year 1990-91 for that academic year and handled by a branch of a financial institution participating in the Scheme at that time.

(5) That transaction fee will cover the relevant participating institution's counselling a student on the financial implications of his or her application; playing its part in the processing of an application; subject to the consent of the student, interviewing, so far as practicable, the student immediately before he or she finally leaves the educational institution so as to remind him or her of the financial obligations in respect of the loan; and advising the Company on request of a change in the student's address, if known and practicable, it being recognised that such requests are not expected to be made on a regular basis.

(6) The £12 transaction fee will be indexed to the RPI (as at August 1991) for 1991-92. During the second and fourth years of the scheme, 1991-92 and 1993-94, the transaction fee will be reviewed against the criterion of whether the task involved - described in (5) above - has changed and on the basis of mutually acceptable arrangements for arbitration if necessary. The reviews might result in either an increase or a decrease in the real value of the fee. The resultant figures will be applied in the third and fifth years of the Scheme 1992-93 and 1994-95. The fee which results from the 1991-92 review will be indexed against the August 1993 RPI for 1993-94; and the fee which results from the 1993-94 review will be indexed against the August 1995 RPI for 1995-96 and the amount as indexed against the August 1995 RPI will be indexed against the August 1996 RPI for 1996-97.

(7) The contract referred to in (3) above will set out the arrangements for the administration of the Scheme and for the provision of loans to students. It will contain provisions whereby the Secretary of State will fund the company for the costs of those arrangements and for such loans.

(8) If the Scheme does not proceed, the Company or its assets will be transferred to the Government or to a third party or wound up, (as the Secretary of State may elect), at the Secretary of State's expense and in such a way as to protect the Company's owners against any liabilities incurred by them in connection with the miscellaneous expenditure and preparatory work approved by the Secretary of State under the individual contracts referred to (2) above as a result of their participation in the Company.

(9) The Secretary of State will appoint a non-executive director of the Company after the enactment of the legislation referred to in (1) above.

(10) This Memorandum is not intended to create legal relations between the Secretary of State and the participating financial institutions and any questions arising as to its meaning or application will be resolved by consultation between the Secretary of State and those institutions.

Signed: For the participating financial institutions:

Signed: For the Secretary of State for Education and Science:


14. 11.
AM 89

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

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

Telex 23171

FACSIMILE TRANSMISSION

IMMEDIATE BY HAND ON ARRIVAL

FROM: John MacGregors Private office

FAX NUMBER: 934 0699 GTN 2914 0699

TO: Duty Clerk

DATE AND TIME:

9.00am 15.11.89

NUMBER OF PAGES TO FOLLOW:

1

REMARKS (IF APPLICABLE):

PLEASE REPLACE THE FIRST PAGE OF THE LETTER 'STUDENT LOANS', WHICH WE SENT LAST NIGHT, WITH THE ATTACHED

PRIME MINISTER

STUDENT LOANS

You will know that preparatory work is well in hand for the introduction of the student loans scheme. I am glad to be able to say that agreement has now been reached with a significant number of financial institutions on the terms on which they will establish the private sector company which will run the scheme; and on how contracts will be handled in the period before Royal Assent to the Student Loans Bill. A Memorandum of Understanding has now been put to them for signature and, provided they sign, I intend to announce that agreement by way of a Written Statement to the House on Thursday 16 November. I attach the text of what I propose to say.

I expect Ten banks, (Barclays, Midland, NatWest, TSB, the Girobank, 4 Northern Irish Banks and I think also the Royal Bank of Scotland) to agree to establish and wholly own a company, Student Loans Company Limited. Other institutions, including building societies, may come in later. The company will be responsible for preparatory work which will include the negotiation of a contract with Electronic Data Systems for the loans processing system; leasing and fitting out premises in Glasgow; appointing senior personnel; and taking all necessary steps to ensure that loans will be available to students in September 1990. The Company will continue to be assisted by Price Waterhouse. The Company will be funded through contracts with my Department for specific items of work and miscellaneous expenditure. The costs of those contracts will be met from estimates already approved by Parliament.

The Memorandum of Understanding (attached to the draft statement) embodies this agreement with the financial institutions. The Memorandum sets out the terms on which the financial institutions will be remunerated when the scheme is in operation. A transaction fee of £12 will be paid for each student loan application handled by a branch of a participating financial institution. It gives the financial institutions a reasonable return for their involvement in the scheme, while ensuring that they play a full part in counselling students on loan applications. All these arrangements have been agreed with Norman Lamont. The total administration costs of the scheme will be settled during the course of contractual negotiations with the systems suppliers and others: that figure will be no more than £20m and will be far less than many critics have suggested.

The next task is to secure the agreement of those financial institutions which have formed the present Company and, I hope, additional institutions including building societies, to administer the scheme after Royal Assent. A brochure will be circulated to financial institutions in the next few weeks setting out the terms of a full contract. That contract will be signed after the legislation is enacted.

CONFIDENTIAL [redacted] file

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

13 November 1989

Dear John,

STUDENT LOANS BILL

The Prime Minister has seen your Secretary of State's memorandum L(89)23, which will be discussed at L Committee tomorrow.

I should be grateful if you would ensure this letter is seen only by those with a clear need to know.

The Prime Minister has noted that the draft Bill says specifically that the loans scheme is for maintenance. She wonders whether it is appropriate to limit the scope of the Bill in this way given the possibility that, if universities made substantial moves towards charging more realistic fees, it might subsequently be decided that a part of these higher fees should be covered by loans. She would therefore be grateful if consideration could be given to the possibility of drafting the Bill more generally in terms of loans to students rather than restricting such loans to maintenance.

I am copying this letter to Steve Catling (Lord President's Office) and Sir Robin Butler and Philip Mawer (Cabinet Office).

Yours,
Paul

PAUL GRAY

John Ratcliff, Esq.,
Department of Education and Science.

CONFIDENTIAL

10 DOWNING STREET

Prime Minister

Do you want me to feed in Brian's comment below?

RLCG
10/11

Yes

~~I think not~~

MT

Prime Minister
Do you want to feed in this point before the L Committee discussion?

PRIME MINISTER

9 November 1989

RRC6
9/11

STUDENT LOANS BILL L(89)23

The draft bill states explicitly that the loan scheme is for maintenance and not fees. This was not the intention of Kenneth Baker and Robert Jackson when they first put forward the proposal. Their strategy was to make the bill one for loans to students, leaving open the possibility that if universities did raise their fees then part could be covered by loans. It appears that, since then, officials have been pressing to restrict the bill to maintenance.

Allowing and encouraging universities to move to charging more realistic fees is probably the single most important factor in achieving perestroika in our universities. It would be a great shame if we were to miss this opportunity to keep future options open. If we fail to do so, it may be very difficult to get universities to move in the right direction in the future without fresh legislation.

RECOMMENDATION

E(L) discusses this issue next Tuesday. There is a strong case for the bill simply being for loans to students rather than restricting such loans to maintenance.

Yours Clark

P.P. BRIAN GRIFFITHS

cst.ps/7nl24.10/drf

CONFIDENTIAL

CC PM

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street SW1P 3AG

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

NBPM

RLC6

24/10

24 October 1989

Dear Secretary of State,

STUDENT LOANS

Thank you for your letter of 20 October reporting on the current state of negotiations with the banks. Like you, I am encouraged by the progress which has been made but, again like you, I have no illusions about the banks' continuing lack of enthusiasm for this business and the difficult negotiations that still lie ahead. Nevertheless, I do see the benefits of seeking to consolidate, as far as we can, the progress that has been made and I agree that a statement to Parliament making public the agreements that have now been reached would be helpful in taking these negotiations forward. It would also fulfil the commitments which Kenneth Baker and Robert Jackson have made about keeping the House informed of the progress of these discussions. I would, of course, welcome the opportunity to consider a draft of the announcement in advance.

2. On the question of Survey provision, I have already acknowledged that I would be willing to consider sympathetically any increases in the administration costs of the loan company and of the banks which exceed the figure of £10 million a year which we agreed in our bilateral discussions. I am less clear about the need for additional resources to cover other costs - such as your own professional advice - as most of these will be incurred during the current financial year and should, therefore, be met from the £7.5 million already provided for preparatory work during 1989-90. Nevertheless, I agree that our officials should now get together to discuss urgently what additions to PES provision would be justified over the Survey period so that the necessary adjustments can be made.

3. I am sending a copy of this letter to the other members of E(EP) and to Sir Robin Butler.

Yours sincerely.

P. Wardell

pp NORMAN LAMONT

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

EDUCATION, Student Loans PT 2

CONFIDENTIAL

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

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

20 October 1989

Dear Norman,

STUDENT LOANS

I am writing to seek your agreement to the terms on which we hope to persuade the financial institutions to participate in the administration of student loans. I think your officials, with whom mine have kept in close touch, will have kept you in the picture over the negotiations that have been taking place. Those negotiations have, I am glad to say, now reached the point at which both sides have agreed to recommend a deal to their authorities. Chief Executives of CLSB are now being consulted; I am content; and I hope you too will be able to agree.

As you know the agreed basis of the scheme is a private sector loan administration company, wholly owned by participating financial institutions, whose actual costs will be met by the DES subject to our approval. Staffing levels and location (Glasgow) have already been agreed; negotiations are under way, following tenders, with the preferred systems supplier (EDS). The profit for the financial institutions was, they envisaged, to arise partly through a fee for each loan applicant each year (known as the transaction fee) and partly through a management fee for the company. Price Waterhouse estimated the actual annual cost per borrower of counselling and loan processing at bank branches to be around £6, in the report which was published in June.

CONFIDENTIAL

I propose to agree a transaction fee of £12. There are clear indications from the Banks that a lower fee will not attract enough institutions to make the scheme work: even at that level participation may be limited. We are able to specify the tasks to be undertaken, including an "exit interview" to help us keep track of graduating students, and with the help of our own consultants we have concluded that the time of the bank staff involved, and overheads, may cost up to £7. The balance is profit for the institutions - less if their costs are higher, but more if they are lower. All our costings assume 400,000 borrowers a year, so the £5 balance is worth some £2m profit a year - which will have to be split among the participants. The banks in return have dropped the requirement for a separate management fee for the company. All in all, I hope you will agree, this is a very good deal, especially in the face of the exaggerated criticism of the likely costs of administration and widespread speculation that the banks will decline to participate.

We face a number of other difficulties, of which your officials are aware, over the detailed arrangements with the financial institutions and it would be premature to say that we have it in the bag. They are not particularly keen on the scheme, as you know, and will take an escape route if we give them one. But as soon as the way is clear, the loan administration company is formed and a letter of intent is given to EDS, I shall be able to make an announcement: that might be next week.

I am now in a position to be more precise than when we met in Blackpool over the likely overall administration costs. The details are set out on the attached sheet, which is based on the latest advice from Price Waterhouse, adapted to reflect a £12 fee. You will see that I shall need, on present forecasts, PES provision over the survey period for up to £16m or so a year (the figures are for academic years and are still only estimates; and I shall need some provision for administration costs other than the loan company, such as for our own professional advice) I hope you will be able to adjust our PES agreement accordingly. I shall of course be able to present the VAT element of the costs separately: the range is within reasonable sight of the estimates published in the summer.

I should be most grateful for an answer - a telephone call from your Private Office would be helpful - in the course of Monday. I am sending a copy of this letter to members of E(EP) and to Sir Robin Butler.

Yours ever,

JK

£m	START UP COSTS		AY 1990/91		AY 1991/92		AY 1992/93		AY 1993/94		AY 1994/95	
	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
Company Costs	8.5	10.3	6.7	8.1	7.6	9.3	8.3	10.0	8.9	10.8	9.5	11.5
Transaction Fees	-	-	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
VAT	0.9	1.1	1.3	1.6	1.4	1.6	1.4	1.7	1.4	1.7	1.4	1.7
TOTAL PES PROVISION REQUIRED	9.4	11.4	12.8	14.5	13.8	15.7	14.5	16.5	15.1	17.3	15.7	18.0
TOTAL NET OF VAT	8.5	10.3	11.5	12.9	12.4	14.1	13.1	14.8	14.5	15.6	14.3	16.3

CONFIDENTIAL

Education
Student loan
pt2

CCP.CS

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

NBPM
PRC 6
7/7

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

6 July 1989

Dear Ken,

SHIFTING THE BALANCE OF PUBLIC FUNDING OF HIGHER EDUCATION TOWARDS THE FEE

Thank you for sending me a copy of your letter of 27 June to John Major.

As I indicated in my letter of 5 April, I am content with the proposed increase in the level of the fee and I accept that it should be fixed at £1,675.

There will of course be an impact on the PES adjustment which I have already identified, but our officials can take this into account in their discussions.

I am copying this letter to the Prime Minister, Nicholas Ridley, Malcolm Rifkind, Peter Walker and John Major, and to Sir Robin Butler.

Yours
Tom

TK

GH/SOFS/6042

EDUCATION: Student Loans Pt 2



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

4 July 1989

Dear Kenneth,

SHIFTING THE BALANCE OF PUBLIC FUNDING OF HIGHER EDUCATION TO FEES

Thank you for copying to me your letter of 27 June to John Major.

I am pleased that there is general support for the changes we are proposing to make in 1990, and I agree that the fee for 1990-91 should be set at £1,675. I should like to make a separate, concurrent, Parliamentary answer about the Scottish dimension, particularly since I have in mind to extend the shift to certain diploma courses in Scotland leading to qualifications in professions supplementary to medicine and social work, which are included in the Students' Allowances Scheme for students who are Scottish residents but not in your scheme of mandatory awards. I agree that our announcements should be made as soon as possible, in order that detailed arrangements can proceed. My direct responsibilities for funding the grant-aided colleges in Scotland will attract problems similar to those of the Funding Councils in adjusting grants to take similar account of the shift, taking account of students whose fees we wish to be protected. I should be grateful therefore if you would keep me closely informed about the terms of any advice which you propose to give to the Chairmen of the Councils.

I have copied this letter to the recipients of yours.

Yours ever,

MALCOLM RIFKIND

EML184L3

EDUC: Student loans pt 2.



cst.ps/4jm30.6/lets

CONFIDENTIAL

CCPU

CHIEF SECRETARY TO THE TREASURY

NBPM
PRCG
30/6

Treasury Chambers, Parliament Street, SW1P 3AG

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

30 June 1989

Dear Secretary of State,

SHIFTING THE BALANCE OF PUBLIC FUNDING OF HIGHER EDUCATION TOWARDS THE FEE

Thank you for your letter of 27 June. I am pleased to see that the proposals in the consultation paper have been widely supported.

Your letter sought my agreement to a revised level of fee. I appreciate the importance of setting the fee at a level where it achieves the objective of providing an incentive to institutions to attract students, and have no difficulty with the new level of £1,675. I am conscious, however, that this change will increase the size of the potential overshoot in public expenditure as a result of any underestimate in the forecast of student numbers. It is, therefore, more important than ever that your forecasting methods and projections should be scrutinised carefully over the coming months to ensure that the recent pattern of underestimating is not perpetuated.

As you mentioned, the implications for the Funding Councils of the switch to higher fees will be significant. I would be grateful if your officials could keep mine informed about how their thinking is developing. The recent article in the THES on the options being considered by the UFC indicated that some radical ideas are being discussed.

EDUCATION: Student loans PT2

CONFIDENTIAL

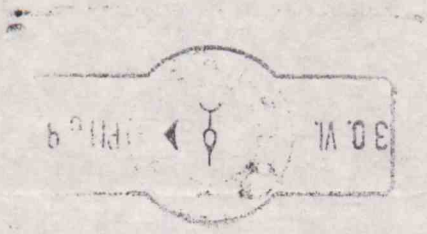
I am also content for you to make an announcement early in July. My officials will be happy to discuss suitable wording with yours.

I am sending copies of this letter to the Prime Minister, Nicholas Ridley, Malcolm Rifkind, Peter Walker, Tom King and to Sir Robin Butler.

Yours sincerely,

P. Walker

pp JOHN MAJOR
(Approved by the Chief Secretary and signed in his absence)



SECRETARY OF STATE FOR EDUCATION AND SCIENCE

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

NBPM will
Treasury
regard.

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament St
London SW1

27 June 1989

Dear John.

SHIFTING THE BALANCE OF PUBLIC FUNDING OF HIGHER EDUCATION TO FEES

As you know, my consultation paper on shifting the balance of public funding of higher education to fees was published on 25 April. It asked for comments on the initial flat-rate increase in 1990-91 by 24 May. We have now received over 150 responses, nearly all of which support the proposed shift.

In the light of this reaction, I should like to make an early announcement confirming the Government's intention to proceed with the higher fee. The only other point on which I need colleagues' agreement is whether we raise the consultation paper's £1600, which was at 1989-90 prices, as I indicated in my letter to you of 16 March.

There is a strong case for an uplift. Sticking at £1600 would lessen the incentive effect and would be inconsistent with the emphasis we have placed on the opportunities offered by a higher fee. I propose therefore that the standard mandatory award fee for 1990-91 should be set at £1675, with the deductions from Funding Councils' grant determined accordingly when we settle that later this year. An increase slightly above the current 4% forecast GDP for 1990-91 would be further evidence of the seriousness of our intentions and would help to ensure that the universities in particular respond by stepping up their recruitment.

The Funding Councils and institutions will need maximum notice in order to plan their affairs. I should like therefore to make my announcement in answer to a Parliamentary Question in early July, and would be grateful for early confirmation that you are content for me to proceed as proposed.

The deadline for comments on the proposal to introduce differentiated fees in 1991-92 expires at the end of July. I will report on the reactions to that in due course.

I am copying this letter to the Prime Minister, Nicholas Ridley, Malcolm Rifkind, Peter Walker and Tom King, and to Sir Robin Butler.

Educator → Student Loans A-Z



Student Top-up Loans

3.30 pm

The Secretary of State for Education and Science (Mr. Kenneth Baker): With permission, Mr. Speaker, I wish to make a statement about the arrangements for administering top-up loans for students.

The House will recall that on 9 November I announced the Government's proposals for introducing non-means-tested top-up loans. I said that from 1990, in addition to their grant, all home students in full-time higher education —except postgraduates—would be eligible for a top-up loan averaging over £400 in a full year. I explained that it would be offered at a real interest rate of zero, and that repayments would be deferred when a graduate's income is low.

In that statement, I made clear the Government's view that the top-up loan scheme would be best administered by the financial institutions. The scheme will of course be subject to the necessary legislation and, as I told the House, the Government will bring forward a short Bill to provide legislative authority for it. I am glad to be able to tell the House that, following discussion with representatives of the Committee of London and Scottish Bankers, a scheme has been designed which is agreed to be a cost-effective and feasible means of introducing top-up loans in September 1990 as planned.

Under the scheme there will be a private sector loan admistrator, in the form of a company established and wholly owned by participating financial institutions, under contract to the Government. Participation in the company will be open to a wide range of financial institutions. It is clear from my discussions with members of Committee of London and Scottish Bankers that—subject to the satisfactory outcome of the contractual negotiations—a sufficient number of financial institutions will wish to participate from the outset to ensure that the company will be viable.

Under the arrangements students who wish to benefit from top-up loans will obtain a certificate of entitlement from their university, polytechnic or college. The certificates can be presented to the branches of the banks and other financial institutions that own that company, or to the company itself, which will make the resources available to the student and maintain a record of the transaction. The Government will fund the company for the administrative costs of the scheme and, of course, for the loans themselves.

The Government have carefully considered the repayment system, in the light of the responses to the White Paper "Top-up Loans for Students". We have concluded that repayment should be on the basis of equal amounts, adjusted annually for inflation, being repaid over a standard period. The obligation to repay will be deferred when a graduate's income falls below given levels in relation to average national income. Deferment will be arranged with the company on the basis of self-certification of income and subject to audit. In order to minimise any default on repayments, there will be a financial incentive under which the company will earn a proportion of its fee through securing a high repayment rate.

The Government will meet the costs of detailed preparatory work by the Committee of London and Scottish Bankers and by the company in the period from now onwards. Parliamentary approval will be sought in an additional Supplementary Estimate, to be presented shortly. We shall start immediate negotiations with the interested financial institutions to conclude a contract to cover the operation of the scheme, and that will of course be conditional on the Royal Assent to the Act. The range of costs indicated in the preparatory work is from £8·3 million to £11·5 million for start-up costs, and from £10·4 million to £14 million for annual operating costs. I am glad to say that those are many times smaller than the amounts that I have been reading about in the press over the last few months.

It is right that this scheme should be administered in the private sector, as our financial institutions possess skills in information and banking systems that are not readily available in the public sector. I am satisfied that the arrangements offer an efficient scheme and good value for money, and I commend them to the House.

Mr. Jack Straw (Blackburn): If this is good news, as the Secretary of State appears to suggest, why did he hide away this announcement from the voters until after the European elections? Why did he consistently block all our requests for statements and why have the Government welshed on their promise of a debate?

Is the Secretary of State aware that under this grotesquely incompetent scheme the nation ends up with the worst of all worlds, in which the taxpayer pays much more while the student is given much less? Will he confirm that with inflation at 8 per cent., instead of the 3 per cent. forecast in the White Paper, and with the abolition of housing benefit, almost every student will be worse off from next year?

The right hon. Gentleman's statement says, in carefully crafted weasel words, not that there has been an agreement with the financial institutions but that a scheme has been designed

"which is agreed to be a cost-effective and feasible means of introducing top-up loans".

Will the Secretary of State say precisely what has been agreed with the financial institutions, or has nothing bankable been agreed with those institutions?

Will the Secretary of State confirm that he has come close to giving a false impression about costs by specifying costs which relate only to the early years of the scheme when there are relatively few debtors? What will be the cost per student and the cost per outstanding advance once the scheme is fully operational? What figure was advised by Price Waterhouse? Why is there no reference to interest rate subsidy in the statement or, indeed, to its cost, in the White Paper? What are the costs of the preparatory work that the taxpayer is now supposed to meet?

Is the Secretary of State aware that on the most conservative estimates, the administrative set-up and write-off costs, once the scheme is fully operational, will not be less than £100 per debtor? What kind of bloody-mindedness is it that persuades the Secretary of State to give £100 to moneylenders, bureaucrats and bailiffs when instead he could use that £100 per student to restore the real value of the grant? Is he aware that in the United States the cost of defaults on loan schemes such as this is now running at $1·8 billion, one third of the total cost of the scheme? What does the Secretary of State expect the defaults cost of this scheme to be? Will he confirm that it will cost the Exchequer more while giving

[Mr. Jack Straw]

students less until decades into the next century and that there is even a prospect of this scheme never breaking even?

Why has the Secretary of State said nothing this afternoon about his earlier grand claims that a loans scheme would increase access and opportunities—I thought that that was the argument in favour of the scheme—or has he now accepted, in the light of the 95 per cent. of representations that he received against the scheme, that it will put students off going into higher education and damage the opportunities of those from low-income homes?

Is the Secretary of State aware that his ministerial career is littered with wheezes and gimmicks which seemed a good idea at the time but which turned out to be half-baked and unworkable? Does he intend to see this barmy loan scheme through, or is he going to cut and run to another Department and leave the mess to someone else —as he did with his previous great invention, the poll tax?

Mr. Baker: I am delighted that the spirit of the hustings still survives. I advise the hon. Member for Blackburn (Mr. Straw) not to be too cocky about last Thursday's results. We shall expose the fact that the Labour party, despite its new proposals in its new manifesto, is still Socialist in tooth and claw, and that its proposals on education are totally negative, in that the hon. Gentleman wants to abolish schools and reverse our reforms. *[Interruption.]* I do not know whether this is the first skirmish in the opening campaign for the general election in two or three years' time, but I am quite confident that if it is we shall eventually win. *[Interruption.]*

Mr. Speaker: Order. Let us get back to the scheme.

Mr. Baker: I was provoked shockingly, Mr. Speaker. The hon. Gentleman said that next year students will be worse off, but that will not be the case. We estimate the disentitlement to benefit next year to be about £65 million and the increased additional resources available through top-up loan schemes will be £167 million. *[Interruption.]* I wish that the hon. Gentleman would listen for a minute. In addition to the £167 million there will be £15 million of access funds.

The hon. Gentleman asked me about bank participation. We have had discussions with a number of banks and other financial institutions. I am clear that there will be substantial interest in participation in the scheme, subject to the negotiation of the final contract. In particular, it is clear that major clearing banks will be ready to participate in the scheme. It is for individual banks and other financial institutions, including building societies, to say whether they will take part in the scheme. That must be their decision, but I am confident, from assurances given personally to me, of substantial interest in participating in the scheme.

The hon. Gentleman talked about those students who will be worse off. As a result of top-up loans, 120,000 students who currently receive no maintenance grant whatsoever, because they are means tested out of it, will have the availability of a top-up loan of about £400 a year on average. Similarly, 160,000 students who receive a reduced grant as a result of parental contribution, but whose parents do not make it up, will also benefit from the top-up loan facility. In addition, some 50,000 students in higher education who have no entitlement to an award at the moment will benefit from top-up loans.

The hon. Gentleman asked me about default. We always include provision for the cost of default in our arithmetic. Annex E of the White Paper on top-up loans shows an illustrative figure of a default rate of 10 per cent. Some default is inevitable, but I do not expect it to be as high as 10 per cent. Some default is inevitable by the nature of the scheme. For example, we will require the loans to be made available to all students who are taking higher degree courses, irrespective of their credit rating. If a graduate unfortunately dies after graduation, the debt of that person will not be taken into his or her estate; it will be written off. Similarly, the scheme allows any outstanding debt to be written off by the age of 50. Those are unusual characteristics of a banking operation, so we have to meet them.

We have always assumed that the Government will have to stand behind the cost of default, as illustrated in the White Paper, but the operating company will earn a proportion of its fee through securing a high repayment rate.

The hon. Gentleman asked about default rates, particularly in America. I remind him that the rate of default in Norway is 1 per cent. and 2 per cent. in Sweden and Japan. In America, the default rate is high for two reasons. First, there are no proposals for deferment while American graduates are earning, so those on low incomes are expected to repay and they default. We are allowing for the obligation to pay to be related to income. Secondly, in America the loan scheme has been extended to those whom we would call further education students and it has proved very difficult to track them as they move all over America.

As I said in my original statement, costs will be between £8 and £12 per student account. In 1995 we estimate that the operating costs will be between £10·5 million and £14 million. That gives the £8 to £12 per student account in 1995. As for what that represents as a percentage of the money outstanding, by 1995 we estimate that there will be an outstanding amount of £1·2 billion and administrative costs of £10 million to £14 million, which is a very small proportion—about 1 per cent. That is all set out in the original White Paper in annex E—*[Interruption.]* I wish that the hon. Gentleman would read the White Paper and be familiar with his figures. Once again he shows that he has not done his homework. He has no ideas; he does not even have ideas about our ideas.

Mr. James Pawsey (Rugby and Kenilworth): Does my right hon. Friend accept that his statement will be widely welcomed by Conservative Members and by the country? It will increase the degree of access to higher education by providing a source of cheap funding. Will he confirm that it will be just about the cheapest money in town?

In response to the hon. Member for Blackburn (Mr. Straw), I should like to draw two further points from my right hon. Friend. First, will he confirm that the incidence of default in Scandinavia is between 1 and 2 per cent.? Secondly, on access funds, the original figure quoted in the White Paper was £15 million. Does my right hon. Friend agree that many Conservative Members consider that £15 million is inadequate and would like him to endeavour to improve that figure?

Finally, when we introduce legislation in this matter, is it intended also to have some reference to the funding of student unions and to freedom of speech in higher education and in universities?

Mr. Baker: My hon. Friend asked various questions. I can confirm that the default rate in Norway is 1 per cent. It is 2 per cent. in Sweden and 2 per cent. in Japan. My hon. Friend asked also about the level of access funds. The access funds in the White Paper were stated to be about £15 million—that is, £5 million for the universities and polytechnics, £5 million for postgraduates and £5 million for the FE sector. There have been representations during the consultation process that those figures should be higher. I note carefully what my hon. Friend has said. Those decisions will be taken next year in the PES round.

My hon. Friend asked whether it is the cheapest money in town. Certainly, it does not bear a real rate. It is a real rate of zero. It means that the outstanding amount is uprated by the rate of inflation each year. Many students will find that an attractive deal.

My hon. Friend asked about student unions. I recognise the concern on behalf of those students who do not wish, through their own student unions, to be affiliated to the National Union of Students. I am considering various options for change in the present arrangements, and I will bring forward proposals in due course. I will also publish shortly the report of the survey on the student unions and the NUS.

My hon. Friend asked also about freedom of speech. I recognise a real concern that some visiting speakers have been unable to secure a fair hearing, or any hearing at all, on certain campuses. I have consulted the Committee of Vice-Chancellors and Principals, the Committee of Directors of Polytechnics and the Standing Conference of Principals on how best to strengthen the provisions of the 1986 legislation. I am now considering the way forward, and I will bring proposals forward in due course. If necessary, we shall consider further legislation.

Mr. Simon Hughes (Southwark and Bermondsey): Does the Secretary of State deny the statement by one of the bank officials whom he met last week to the effect that they were still all at sea about who would pay for the scheme, who would run it, and so on? Does he deny that he cannot say today that anybody has unconditionally agreed to participate in the scheme?

Is it not already the case that, on previously projected figures, it would cost £750 million over 10 years, on the Secretary of State's basis, before the scheme breaks even at the end of the decade? That is on the basis of a 3 per cent. rate of inflation, which is clearly, under his Government's administration, a wildly inaccurate estimate. The additional costs announced today will total at least £150 million. Is it not the reality that the scheme will cost at least £1 billion or more to the Treasury? At the moment, that is not a cost that the Government are having to finance at all, but will involve extra Government money under their scheme of public expenditure.

Mr. Baker: The hon. Gentleman must refer to annex E in the White Paper. I am sure that he is familiar with the figures. He will know that it will cost the Government money until the break-even year. As a result of the outlined cost figures that I have given today, it is possible that the break-even year may move about half a year forward, from 2001 to 2002—no more than that. The Government are committed to reducing the rate of inflation. That remains the Government's unremitting target.

Mr. Robert Rhodes James (Cambridge): As my right hon. Friend and the House are aware, I am not exactly an enthusiastic supporter of the scheme, either in principle or in practicality. Although, of course, I shall look carefully at my right hon. Friend's statement, in view of what happened last November, I advise the House to look at the statement carefully and to question some of the figures. As it is now grimly evident that the cost of the scheme will primarily be borne by the taxpayer, before drafting legislation will my right hon. Friend consider whether the figures could be rather more precise, whether the implications could be made rather clearer, and whether the House could have a debate on these matters?

Mr. Baker: The hon. Member for Blackburn (Mr. Straw) referred earlier to the question of a debate. I should welcome such a debate and I hope that my right hon. Friend the Leader of the House, who is in his place, has registered my expectation that there will be one because it would be helpful. I am happy to give the figures. Indeed, the figures that I put forward this afternoon take us much further forward in our discussions with the banks. Coupled with the figures set out in the "Top-up Loans for Students" White Paper and in Annex E, they mean that the figures are before the country and the House. I am happy to consider what my hon. Friend has said. I do not know whether I can convert him to support this scheme, but I believe that he has something of an open mind.

Mr. Merlyn Rees (Morley and Leeds, South): Is the Secretary of State aware that I have not needed to read the White Paper or to listen to the statement about this type of loan because it was available before the last war? Indeed, I went to university on such a grant and paid it back out of my gratuity at the end of the war. Therefore I understand the nature of the grant and its effect on students without guessing about it. When I read in the White Paper that the aim is to save public expenditure, that reinforced my view—which is strongly felt because I represent an inner-city area where practically nobody goes into higher education—that all that this will do is to make it doubly difficult for the sort of people that we want to get to university actually to get there. If that is dyed-in-the-wool Socialism, count me a dyed-in-the-wool Socialist.

Mr. Baker: It is just as well that the right hon. Gentleman does not live in Australia these days, where the Socialist Government have introduced charging for tuition costs and fees at universities. I am not simplying that the hon. Member for Blackburn would seek to follow that, but simply wish to point out that, associated with that proposal in Australia is the graduate tax, a proposal that has won support from some Labour Members. Indeed, the Labour spokesman in the House of Lords favours a graduate tax and I believe that the hon. Member for Durham, North (Mr. Radice), the immediate predecessor of the hon. Member for Blackburn, also favours a graduate tax. There is a lot of new thinking in the Labour party in this area——

The Parliamentary Under-Secretary of State for Education and Science (Mr. Robert Jackson): Some new thinking.

Mr. Baker: Well, as my hon. Friend has said, there is some new thinking.

The right hon. Member for Morley and Leeds, South (Mr. Rees) raised the question of access. We are the only developed country not to have some form of loans system for students. In the other countries that have top-up loans alongside grants, a higher proportion of the population of young people goes to college, university or the equivalent of polytechnics, especially in America, where there are extensive loans systems. I am often told that such a system will discourage women, but in America women now constitute well over half the student population. The system has not proved a deterrent.

I advise the right hon. Gentleman that I am committed to the expansion of higher education. The Governments of which he has been a leading member, and Conservative Governments, have always been constrained by the high cost of higher education in our country. The right hon. Gentleman served in the Cabinet that cut higher education significantly, both in numbers and in capital. Student loans will represent a new flow of funds into higher education and will broaden the financial platform.

Mr. David Madel (Bedfordshire, South-West): How will discretionary grants fit in when the scheme is under way? Will my right hon. Friend assure me that when all the details have been worked out the greatest care and sensitivity will be exercised towards those students with long courses, such as medicine or veterinary medicine?

Mr. Baker: Discretionary grants will, of course, continue, as will the normal mandatory grants. It will be up to the local authorities to decide exactly what the position is and whether they give grants. Those people who are not successful in obtaining a discretionary grant—there are many tens of thousands each year—will be eligible for top-up loans, which will be non-means tested. That represents a guaranteed and assured source of extra available funds.

Mr. Peter Shore (Bethnal Green and Stepney): The Secretary of State should know that his announcement will have been greeted with great disappointment, if not dismay, by the great majority of students in British universities who were hoping that the Secretary of State's statement this afternoon would announce that he had had second thoughts about this mean, paltry and damaging scheme.

Is the Secretary of State not aware that medical students, who have five-year courses, three of which are taken up with clinical studies, lasting 46 weeks of the year, have had and will have no opportunity of supplementing their inadequate grants with extra earnings during the long vacation and other periods? Is he not aware that the average medical student today in London is having to borrow from banks up to £3,000 over the length of his course to meet the present deficiencies in his student grant? What effect will this additional burden of loan have upon medical students and especially upon those who have been recruited from rather less affluent circumstances than the Secretary of State normally considers, and on women students, who now form so large a part of our total student intake for medical purposes?

Mr. Baker: I will take no lectures on inadequate grants and general expenditure on higher education, from a right hon. Member of the House who was a member of the Labour Cabinet that substantially cut higher education. In general, there were substantial cuts in higher education in 1976, because the Labour Government ran the country so badly. I believe that many students will welcome the proposal for top-up loans. I have already indicated the large numbers of students—the 120,000 who receive no grants at present; the 160,000 who have their grants reduced and the 50,000 who are or who are not on discretionary awards in higher education—who will benefit by having an available source of money, at a cost lower than the costs that the right hon. Gentleman suggested medical students would pay.

Medical students can look foward to a high income but, if they do not achieve that high income, they will be protected by the deferment arrangements. I recognise that the medical students' extra years of study will lead to extra debt, and the repayment term may need to be extended for them.

Sir Philip Goodhart (Beckenham): Can I press my right hon. Friend on the question of medical students? In the United States the average doctor starts his medical career with a debt of $50,000. We do not want to see that happening here.

Mr. Baker: It is highly unlikely that there will be any figure of that scale. If my hon. Friend looks at the figures, the average loan is £400 a year in the first year, building up slowly over a period of years. We do not, therefore, envisage that scale of indebtedness for medical students. The point I would make again is that, if there is extra debt, the repayment period, which we have envisaged would be five years for a normal student, could be extended to recognise that fact.

Dr. Dafydd Elis Thomas (Meirionnydd Nant Conwy): If the Secretary of State was meditating on the statement during his sponsored walk in my constituency on Friday, I doubt whether it has done him any good. Will he address himself specifically to the effect of the scheme on mature students? Is he arguing that the introduction of such a top-up loan scheme will benefit and increase access? Where is the evidence of that in the statement beyond that which he was saying in the White Paper?

Mr. Baker: I very much enjoyed going on a sponsored walk in a very beautiful part of the hon. Gentleman's constituency on a lovely day. I thought that it was quite a good day for a leading Conservative politician to be walking in the Welsh hills.

If the hon. Gentleman looks at the availability of student support in other developed countries as compared with this country, he will see that what stands out in this country is its very high level of student support, and that has had an inhibiting effect on the expansion of higher education over the years. In the United Kingdom, for example, in 1984 prices, student support per student is £750; in West Germany £70; in France £180 and in Japan £30. We believe that it is reasonable to expect students to make some contribution towards their upkeep costs while they are studying.

Mr. Anthony Nelson (Chichester): In acknowledging that my right hon. Friend has worked extremely hard to come forward with a viable scheme, may I put to him the concern that perhaps some of us have, which is that unless one means-tests the availability of the loans, they may end up as a subsidy to middle class families? The people who

will benefit are those parents on good incomes, with high tax rates, who will make sure that their children apply for the grants, which will be at very low cost, because it is money that they would otherwise have to find. Far from encouraging access from students from low-income familes, it could end up being a subsidy for those who, perhaps, have lesser claim.

Mr. Baker: I certainly would not introduce means testing for these loans. One of the attractive features of our scheme is that the loans are not means tested. The parents of about one third of students—for example, middle class parents—who have their grants reduced because of means testing do not make up the full entitlement that their children would have if they were not means tested. This system will be of considerable benefit to that group.

Mr. Win Griffiths (Bridgend): Will the Secretary of State name the banks and financial institutions that have been in negotiation with him? Exactly what are their terms in respect of the costs that they are prepared to bear in the administration of this scheme? Was the White Paper the basis of their discussion? If so, is not the whole thing bogus, because the inflation rates used in the White Paper were 5 per cent. in 1989-90 and 3·5 per cent. in 1990-91 and the succeeding inflation rate was 3 per cent.? The figures in the report cannot form the basis of a real estimate of the cost of administering the scheme. What is the present estimate of the real inflation rate in the years ahead for the administration of this scheme?

Mr. Baker: I have said that the Government's clear intention is to reduce inflation, and we are pursuing economic policies that will secure that end.

The hon. Gentleman asked whether the White Paper was the basis of discussions with the banks. We said that there were certain features that any loan scheme would need to have. One was universal accessibility to all students, irrespective of their position. That is not a normal banking function. We said also that there should be deferment if, after graduation, a graduate has a salary or wage a certain percentage below the national average wage. Again, that is not a characteristic of a normal banking repayment scheme. We have ensured that both factors are built into the scheme as discussed.

I reiterate that it is up to individual banks and other financial institutions, including building societies, to say whether they will participate, but assurances, given personally to me, show that there is substantial interest from the clearing banks in participating in the scheme.

Several Hon. Members *rose*——

Mr. Speaker: Order. I should like to call all the hon. Members who are now standing. This is an Opposition day, the subject of which has been chosen by the Social and Liberal Democrats. I shall allow questions on the statement to continue until 4.15 pm. If questions are brief, I shall be able to call all those hon. Members who wish to speak.

Mr. Harry Greenway (Ealing, North): Will my right hon. Friend confirm that the average student borrows £370 a year and is required to repay it at commercial rates, so this scheme will lighten the load? Will he cost the increase in the number of students in higher education over the past 10 years? There are now 266,000 more students in higher education, and we are moving towards one in five of the eligible population before the turn of the century.

Mr. Baker: I cannot confirm the precise figure, but the average indebtedness of students is of that order. Various surveys on the subject have been carried out. My hon. Friend asked me to cost the increase in the number of students. We have allowed in annex E to the White Paper for the increase in the number of students. Since we have been in office there has been an increase of about 200,000 in the number of students. This has been one of the most rapid periods of expansion, most of which has taken place in the polytechnics, although the universities are begining to expand again. The financial arrangements that I made in respect of universities and polytechnics, and which I announced about a month ago will stimulate polytechnics and universities to expand their numbers. The funding is changing so that it is very much a matter of the money following the students, and that is a demand-led expansion.

Mr. Dennis Skinner (Bolsover): Is not today's statement a way for the Secretary of State for Education and Science to try to convince the taxpayer that he will use taxpayers' money to introduce the scheme as a first step so that, later on, the Government can spread the idea abroad that student loans will provide a much greater part of the grant than at present? In other words the Government are using taxpayers' money to get across the idea and will then hammer the students. Will the Secretary of State confirm that Johnson Matthey is one of the banks with which he is having discussions—or is it the Abbey National? When students decide to protest against this evil scheme and come to the House of Commons to do so, will he rejoice in seeing Kate Adie, Brian Barron and other journalists infiltrating picket lines of police who are trying to block the students on Westminster bridge?

Mr. Baker: I am sure that if there is a group of militant students waiting to protest, the hon. Gentleman will be at the head gingering them up. I doubt whether his leader would sanction that action. I am not prepared to name any individual bank but neither I nor, as far as I am aware, any of my officials have had discussions with Johnson Matthey.

The hon. Gentleman also said that we were trying to persuade foreign sentiment abroad. I do not follow his argument.

Mr. Skinner: No, I did not. I said that a sprat was being used to catch a mackerel.

Mr. Baker: I do not follow the hon. Gentleman's argument. It would be foreign sentiment if it were abroad, and I thought he said that. The hon. Gentleman should re-read the White Paper, which makes it clear that from 1990 we shall introduce top-up loans, the grant will be frozen and the loan will go up over a period. We have not disguised our intentions about this, which has been an essential part of the proposals announced in November. Instead of coming in here and shouting at my right hon. and hon. Friends all the time, the hon. Gentleman should do his homework and read the White Paper.

Mr. Tim Smith (Beaconsfield): Does my right hon. Friend agree that those student graduates entering the job market in the 1990s will be doing so at a more favourable

[Mr. Tim Smith]

time than for many years? In those circumstances, it is not unreasonable to transfer part of the cost of student maintenance from the taxpayer to the employer? Most students will have very little to lose and a great deal to gain from the introduction of the scheme.

Mr. Baker: My hon. Friend is right. It is incontrovertible that there is to be what statisticians call a demographic trough and that there will be a dramatic drop in the number of 18, 19 and 21-year-olds in the course of the next five to 10 years. Graduates will find that they are moving into a buyers' market when they leave college. There is very little graduate unemployment today, and there will be even less in the four or five years ahead. My hon. Friend raises the interesting point that in those circumstances, companies may tend to pay off student debts. That is now becoming a regular feature of American schemes in which, if an employer wants to take on a particular person, as part of the employment package he is prepared to write off the debt or provide favourable repayment terms. It may be that various employers in various parts of this country, both in private and public sectors, will want to move towards such arrangements.

Mr. Donald Anderson (Swansea, East): Is the Secretary of State going to freeze basic grants or progressively reduce the basic grant using the loan as cover? Has he seriously considered the effect on women? I heard what he said about women's experiences in the United States. The scheme is bound to give women not only a negative dowry, but a disincentive to return to work at a time when the Government are trying to encourage teachers to return to work after basic training. Is the Secretary of State aware that this scheme contradicts other Government policies?

Mr. Baker: I do not accept that. Some of the other student loan schemes across the world do not include deferment for a woman graduate who goes off to have a family. It is expected that while she is not earning she will repay some of the debt, but that is not so under our scheme. When people cease to be in employment they fall below the threshold level, so the obligation will be deferred.

As regards the structure of the scheme, I confirm that under the proposals in the White Paper the grant will be increased again next year. Its level will be resolved in the PES round for 1990. It will then be frozen in cash terms over a period of years. It will not be reduced in cash terms. The top-up loan will begin and increase yearly thereafter.

Mr. Peter Thurnham (Bolton, North-East): To the extent that disabled students have additional needs, will my right hon. Friend consider adapting his excellent scheme so that they can have extra funds and, when they can earn enough, will he consider helping with easier payments by increasing their thresholds?

Mr. Baker: I shall certainly look into that. Disabled students who graduate and take jobs may well qualify for some of the deferment arrangements. There are allowances in the grants for certain aspects of disability.

Mr. Max Madden (Bradford, West): How will students be credit-rated in future? Will loans be liable to attachment for non-payment of the poll tax; and will loans be available to students who are overseas nationals?

Mr. Baker: The hon. Gentleman's question is about the civil debts of students, not about this particular scheme. A student's credit rating will depend upon whether he repays his debts. We envisage, as I said today, that a loan facility will be available through the loan administrator, a company which will be set up to provide the loan. The banks will be able to bring their considerable expertise, through the branch network, to the recovery of debt.

Mr. Graham Riddick (Colne Valley): Despite the fact that loans will not have to be paid back until students have completed their courses and are earning a living, does my right hon. Friend agree that their introduction will have the psychological effect of concentrating the minds of aspiring students on choosing courses which will be useful and worthwhile in later life?

Mr. Baker: Yes, one of the things that we discovered when my hon. Friend the Parliamentary Under-Secretary of State and his predecessor visited various countries was that in Sweden, for example—radical, Left-wing Sweden —where there has been a loan scheme like this for years, it was said that the scheme had concentrated students' attention and often increased their motivation.

I agree with my hon. Friend that the scheme will make many students think. I do not believe that it will be harmful to any course of study. More and more young people aged 18 and 19 in the student world recognise the enormous return which they will earn from higher education. There has been great increase in their numbers, about 200,000, in the past 10 years. That encouraging figure is welcomed on all sides of the House.

Economic analyses have shown that the return to a student from higher education is an estimated 25 per cent. on the amount spent on that education. The return to society for that amount is between 5 and 8 per cent. It is a good investment.

Mr. David Winnick (Walsall, North): It is not too difficult to know what the Secretary of State would have said about the scheme if he had remained on the Back Benches. Is he aware that this is the sort of Thatcherite discriminatory nonsense that the electorate rejected so decisively on Thursday?

Mr. Baker: Is it Thatcherite of Sweden, Norway, Germany and Japan to have a loan scheme? Of course not. That was empty windbag oratory.

Mr. Alan W. Williams (Carmarthen): I was one of seven children from a very modest background; each of us had the benefit of six years in higher education. That was only possible with adequate student grants. Does the right hon. Gentleman realise that the continuing devaluation of the student grant, and his student loan proposals, will cut off millions of people from modest backgrounds who possess the talent that the country needs, and will make higher education more and more a middle class preserve?

Mr. Baker: First, there is no evidence abroad that this happens and secondly, as he knows and about which I am constantly chided, the real value of student grants in the United Kingdom has fallen since 1979.

Mr. Straw: It has been deliberately cut.

Mr. Baker: The hon. Gentleman says that it has been deliberately cut. That confirms what I say, that it has fallen. Since 1979 the number of students has gone up by

200,000. That includes full-time and mature students. If the hon. Gentleman is saying that part-time students are wrong, he has no policy at all for the expansion of higher education.

Mr. Andrew Smith (Oxford, East): Does not the patent inadequacy of the Secretary of State's responses show the latest instalment of a saga of breathtaking incompetence concerning the whole scheme? It can only be implemented by a dogmatic determination, not to bring in top-up loans but to destroy the basis of the grant system. Did I hear the Secretary of State right when he said that all students are now to be credit rated as part of the scheme? Will he come clean and tell us the true administrative costs in the later years? On many occasions he referred to annex E. Will he give an undertaking to publish an amended version of annex E showing the true administrative costs, including the default rate cost and the interest rate cost?

Does not his statement unforgivably overlook the effect on those students and institutions whose courses are longer? As my right hon. Friend the Member for Bethnal Green and Stepney (Mr. Shore) said, that applies to medical students. Do the proposals not also deal a body blow to the traditions of Scottish higher education, whose needs have been as contemptuously ignored in the statement as they were in the White Paper itself? What about the effect on teachers and on their training? Is not the statement a body blow to the prospects of successfully addressing the teaching crisis? Above all, will not this shameful statement deny access to higher education to the very students whom we ought to be attracting and who are presently denied that opportunity? Does the Secretary of State realise that his kamikaze determination to go down in history as the man who brought free access to higher education to an end, will be opposed with the utmost vigour by the Labour party, the students and, and I am sure, by the public at large?

Mr. Baker: Methinks the hon. Gentleman "doth protest too much". The hon. Gentleman should appreciate that under this Government there has been a substantial expansion of higher education. I have proposals to expand it even further. I have provided money for expansion in the last three years and I shall strive to do so in the coming years. The hon. Gentleman asked about teachers. He well knows that I am bringing forward proposals which will probably mean that many teachers will not do the fourth year. I think that the hon. Gentleman has supported a policy which suggests that the course for a bachelor of education degree should no longer be a four-year course, but a three-year course with one term in school. I do not think that I misinterpret the proposals. In that case they stand equal with other students. The hon. Gentleman asked if I would publish a revised version of annex E. I am quite happy to consider that and if it is helpful I shall do so. *[Interruption.]* I am free with information because there are no secrets in my Department. The hon. Gentleman started his attack on me by questioning my competence. I can be accused of many things but I am not usually accused of being incompetent.

STATUTORY INSTRUMENTS, &C.

Ordered,

That the draft Restrictive Trade Practices (Services) (Amendment) Order 1989 be referred to a Standing Committee on Statutory Instruments, &c.—*[Mr. Alan Howarth.]*

OPPOSITION DAY

[13TH ALLOTTED DAY]

Transport

Mr. Speaker: I must announce to the House that I have selected the amendment in the name of the Prime Minister.

Mr. Dennis Skinner (Bolsover): On a point of order. I do not know whether you are aware, Mr. Speaker, but last week when the business statement was made and in subsequent discussions—you know how they talk in this place—people said, "What is on the agenda for Monday?" They were told that it was the SLD Supply day and that its members would decide. They were told, "We can tell you on the record that it is about Hong Kong." I thought, "That sounds attractive and it might mean about 2 million or 3 million votes in the Euro elections if, perhaps, we can bring a few back." Since then, there has been a change and here we are about to discuss transport. I am not knocking that, but this place has to be regulated in a proper fashion.

Very shortly, the television cameras will be coming in and the television people will want to know on Thursday what is to be debated. They will not be satisfied with this "anything will do" approach by people who are disappearing from view. They will want to know. They will ask, "What's on?" They will be told that it is Hong Kong and they will not be very happy when they find out that it is transport. I am giving some advice for future debates.

Mr. Speaker: That is not a matter for me. As I told the hon. Gentleman last week, we are regulated here by the Order paper and not by rumour.

4.20 pm

Mr. Richard Livsey (Brecon and Radnor): I beg to move,

That this House condemns the lack of adequate investment in public transport, which has resulted in severe congestion and low staff morale leading to the current misery for commuters; and calls for a national transport strategy which invests in the public transport network, encourages a move from road to rail travel and ensures that benefits of new investment in projects such as the Channel Tunnel are shared by the regions and nations of the United Kingdom.

Given the impending chaos that will arise on Wednesday on the public transport system, especially in London, and that the transport crisis with which we are confronted is a major environmental problem, our debate today should be welcome.

The lack of investment by the Government in public transport is deplorable. In particular, the neglect of the rail system in comparison with the investment in the road system beggars belief. In the time that they have been in power, have the Government built any new railway lines? Given their admiration for Victorian values, they should be aware that the Victorians would find the Government's achievements in this respect laughable. What new rolling stock have they provided on the railway lines? What assistance has been given to staff? This discrimination against the railway system is compounded by the loaded methods of investment criteria against the railway system in comparison with the road system.

The Government only started to wake up to the problem of investment in our railways in 1983. Investment was in the doldrums from 1975 to 1983, and, at 1989-90 prices, investment dropped from £546 million in 1975 to

[Mr. Richard Livsey]

£347 million in 1983. One result of this failure has been congestion, especially in the south-east, where a massive growth in passenger traffic has resulted in misery for commuters. The Government have failed the nation with their transport policies and the congestion on Britain's roads is a direct result of the Government's failure to invest in public transport.

Daily, harassed commuters travel in overcrowded, tatty rail coaches that are a misery and, in some cases, no better than cattle trucks. These are overloaded, and it is no wonder that staff on the London Underground and Network SouthEast are at their wits' end. Only a massive investment in rail, both in the cities and in main-line electrification, will alleviate these horrendous problems. Meanwhile, behind the wheels of millions of cars and lorries, drivers are stranded in traffic.

Mr. John Bowis (Battersea): Will the hon. Gentleman give way?

Mr. Livsey: I will give way in a moment. I am trying to say something important.

Drivers are stranded in traffic jams. In London alone, this costs the economy £15 billion a year, and the cost to the environment and people's health is also enormous. My party believes that the Government must plan now for the future, for much more investment in public transport.

Mr. Bowis: I agree that it is important to invest in public transport and rail transport in particular, not least in the capital city. However, can the hon. Gentleman tell me which major rail schemes were started and implemented during the period when his party was in cahoots with the then Labour Government? That is the period that he has condemned as having seen no investment whatever.

Mr. Livsey: The hon. Gentleman is referring to only two years in that period, and the question is irrelevant in the context of the debate.

I understand that this afternoon British Rail will seek a High Court injunction to outlaw Wednesday's planned 24-hour strike by the National Union of Railwaymen on the ground that the union did not properly conduct its strike ballot. The ballot of 70,000 rail workers turned on the rejected 7 per cent. pay offer and the abolition of national pay bargaining. The NUR will argue that it acted entirely within the law. With inflation running at 8 per cent., the loss of national pay bargaining is an important issue. The case for arbitration is extremely strong.

Last Friday, Mr. Paul Watkinson, British Rail's director of employee relations, said that BR had received information that several hundred of its employees had not had the opportunity to vote in the ballot. That is a claim that requires close examination. There is considerable frustration among British Rail staff, and that is understandable when so many trains are overcrowded. I believe that wiser counsels should resolve the dispute.

Mr. Donald Anderson (Swansea, East): Whatever one's views on the merits of the strike, does the hon. Gentleman agree that the action of the British Rail management, in intervening in such a way at such a sensitive time during the course of negotiations, was crass and wholly inept?

Mr. Livsey: I agree that its actions were extremely inept and not an example of good personal management. If it was serious about finding a constructive resolution of the dispute, it would not have behaved in such a way.

There is misery for commuters. Our motorways are jammed because of lack of investment in the railway system. It is not surprising that the motorways are overcrowded, because the number of cars on our roads has doubled in the past 12 years. An additional 2 million cars per annum are being sold and driven on British roads and as a result the environment is deteriorating rapidly. Indeed, the countryside has been laid to waste and there is increased air pollution. I understand that delays in the south-east alone cost about £15 billion.

Mr. Gerrard Neale (Cornwall, North): Does the hon. Gentleman agree that one of the reasons why considerable disdain has been shown for his party over the past few days is that people such as himself say one thing when it comes to investment in infrastructure and then vote in exactly the opposite way when it comes to activating decisions? Does the hon. Gentleman accept that his late colleague, David Penhaligon, fought tooth and nail to get the road system improved in the west country on a scheme backed by the Government? There was total support for his campaign in Cornwall, as well as support from David Penhaligon's colleagues—candidates and Members alike—but when the issue was brought before us in the Chamber and we were asked to support the scheme, two of his hon. Friends voted against it—the right hon. Member for Tweeddale, Ettrick and Lauderdale (Mr. Steel) and the hon. Member for Southwark and Bermondsey (Mr. Hughes).

Mr. Livsey: I accept that the late Member for Truro, Mr. David Penhaligon, campaigned for an improved road system in the west country. I listened to his speeches and I supported him when the issue came to a vote, as did many of my colleagues. It was a good scheme which led to better access to the west country. That is why I supported it.

This Government, previous Governments and planners have demonstrated over many years a lamentable lack of vision and an inability to diagnose what is happening in the movement of people and goods. Things were done rather better during the previous century. No significant new railway lines have been built during the 20th century.

Mr. Robert Adley (Christchurch): Will the hon. Gentleman give way?

Mr. Livsey: No, not now. I shall give way to the hon. Gentleman later. I have given way too often already.

We are now entering a new era of investment in our infrastructure, including transport. I have no doubt that the lack of infrastructure will be the biggest internal problem facing Britain over the next 10 years. The decisions taken now will be absolutely crucial.

Mr. Adley: The hon. Gentleman has stated that the number of cars has doubled over the past 12 years. Does he believe that that has happened because the economy has been prosperous? He also said that we are building fewer railway lines than the Victorians. Does he believe that the invention of the internal combustion engine has had anything to do with that?

Mr. Livsey: I am certain that the invention of the internal combustion engine has everything to do with that.

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THE ADMINISTRATION OF TOP-UP LOANS FOR STUDENTS

Oral Statement

1. With permission, Mr Speaker, I wish to make a statement about the arrangements for administering top-up loans for students.

2. The House will recall that I announced on 9 November the Government's proposals for introducing non-means-tested top-up loans. I said that from 1990, in addition to their grant, all home students in full-time higher education, except postgraduates, will be eligible for a top-up loan averaging over £400 in a full year. I explained that this will be offered at a real interest rate of zero and that repayments will be deferred when a graduate's income is low.

3. In that statement I made clear the Government's view that the top-up loan scheme would be best administered by the financial institutions. The scheme will of course be subject to the necessary legislation and, as I told the House, the Government will bring forward a short Bill to provide legislative authority for the scheme. I am glad to be able to tell the House that, following discussion with representatives of the Committee of London and Scottish Bankers, a scheme has been designed which is agreed to be a cost-effective and feasible means of introducing top-up loans in September 1990 as planned.

4. Under this scheme, there will be a private sector loan administrator, in the form of a company established and wholly owned by participating financial institutions, under contract to the Government. Participation in this company will be open to a wide range of financial institutions. It is clear from my discussions with members of the Committee of London and Scottish Bankers that - subject to the satisfactory outcome of the contractual negotiations - a sufficient number of financial

institutions will wish to participate from the outset to ensure that the company will be viable.

5. Under these arrangements, students who wish to benefit from top-up loans will obtain a certificate of entitlement from their university, polytechnic or college. These certificates can be presented to the branches of the banks and other financial institutions which own that company, or to the company itself, who will make the resources available to the student and maintain a record of the transaction. The Government will fund the company for the administrative costs of the scheme and, of course, for the loans themselves.

6. The Government has carefully considered the repayment system, in the light of the responses to the Top-Up Loans White Paper. We have concluded that repayment should be on the basis of equal amounts, adjusted annually for inflation, being repaid over a standard period. The obligation to repay will be deferred when a graduate's income falls below given levels in relation to average national income. Deferment will be arranged with the company on the basis of self-certification of income and subject to audit. In order to minimise any default on repayments, there will be a financial incentive under which the company will earn a proportion of its fee through securing a high repayment rate.

7. The Government will meet the costs of detailed preparatory work by the Committee of London and Scottish Bankers and by the company, in the period from now onwards. Parliamentary approval will be sought in an additional Supplementary Estimate, to be presented shortly. We shall start immediate negotiations with the interested financial institutions in order to conclude a contract to cover the operation of the scheme, and this will of course be conditional on the Royal Assent to the Act. The range of costs indicated in the preparatory work is from £8.3 million to £11.5 million for start-up costs and £10.4 million to £14.0 million for annual operating costs. I am glad to say that these

are many times smaller than the amounts I have been reading about in the Press over the last few months.

8. Mr Speaker, it is right that this scheme should be administered in the private sector. Our financial institutions possess skills in information and banking systems which are not readily available in the public sector. I am satisfied that these arrangements offer an efficient scheme and good value for money. I commend them to the House.

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SECRETARY OF STATE FOR EDUCATION AND SCIENCE

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

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

19 JUN 1989

STUDENT TOP-UP LOANS: ADMINISTRATION

Thank you for your letter of 9 June. I have now had extended discussions with Lord Boardman, and shall be announcing our agreement with the CLSB later today.

I recognise the force of all the points that you make. I am sure you appreciate that our negotiating position is not strong. The banks do not really want this business; and while we must negotiate hard, if I push too hard they will back away. They know, as well as we do, how little room for manoeuvre there is. Nevertheless we will seek, in the negotiations, to drive as hard a bargain as we can. I am clear that a sufficient number of banks are willing to take the scheme seriously, and I am satisfied that they will come to the negotiating table with a view to concluding a contract with us. I cannot claim their enthusiasm, but I do indeed judge that, subject to successful negotiations, they accept the commitment to have the scheme working by September 1990.

A copy of this letter goes to the Prime Minister.

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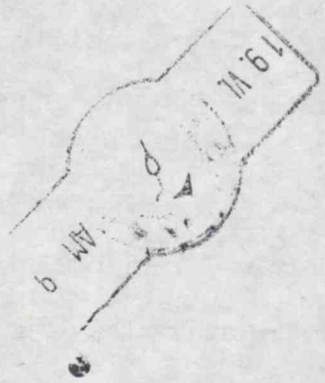

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cc Bernard Ingham

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 June 1989

Dear John,

STUDENT TOP-UP LOANS: ORAL STATEMENT

Thank you for your letter of 15 June enclosing a draft of your Secretary of State's proposed oral statement. The Prime Minister is content with the draft, subject to the comments already made by the Chief Secretary and on the condition that your Secretary of State provides the re-assurances sought in the earlier correspondence.

I am copying this letter to the Private Secretaries to members of E(EP), the Lord President, the Lord Privy Seal, Lord Denham and to Sir Robin Butler.

Yours,
Paul

Paul Gray

John Ratcliff, Esq.,
Department of Education and Science.

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Treasury Chambers, Parliament Street, SW1P 3AG

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John Ratcliff Esq
Assistant Private Secretary
to the Secretary of State
Department of Education and Science
Elizabeth House
York Road
London
SE1 7PH

16 June 1989

Dear John,

STUDENT TOP-UP LOANS: ORAL STATEMENT

Thank you for sending me a copy of your letter of 15 June to Paul Gray, together with the draft of an oral statement which Mr Baker intends to make on Monday.

There are only two changes which the Chief Secretary would like to see made to the text, both of which have already been discussed by officials.

The first is to delete the third sentence of paragraph 7. Given the timing on the late summer Supplementary Estimate, our officials have now agreed that it will not be necessary to provide for advances from the Contingencies Fund.

The second change involves redrafting the fourth sentence of paragraph 7 to read:

> "We shall start immediate negotiations with interested financial institutions in order to conclude a contract, which will, of course, be conditional on the Royal Assent to the Act, to cover the operation of the scheme."

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There remains, of course, the wider question of Mr Baker's response to the issues raised by the Chief Secretary in his letter of 9 June. Both his agreement and that of the Prime Minister (Paul Gray's letter of 12 June) to Mr Baker making an oral statement, were subject to their being reassured on these points. I understand that Mr Baker plans to reply to the Chief Secretary, giving the assurances he sought, and that his letter will be circulated well in advance of the statement on Monday.

I am copying this letter to Paul Gray and to the Private Secretaries to the other members of E(EP), to the Lord President, the Lord Privy Seal, Lord Denham and to Sir Robin Butler. A copy also goes to Bernard Ingham.

Yours sincerely,

Peter Wanless.

PETER WANLESS
Assistant Private Secretary



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Copy

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

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

Prime Minister

Brian Griffiths has no comments. I have marked in red some comments from John Major. Content with Mr. Baker's statement as long as he provides the reassurances on the scheme sought by John Major in the earlier exchanges? RRC6 16/6

Yes pm

Mr P Gray
10 Downing Street
LONDON
SW1A 2AA

15 June 1989

Dear Mr Gray

STUDENT TOP-UP LOANS: ORAL STATEMENT

Your letter of 12 June recorded the Prime Minister's agreement to my Secretary of State's making an oral statement about the willingness of the banks to undertake the administration of the loans.

Mr Baker has now seen Lord Boardman, and we have prepared a draft statement in the light of the discussion and others that we have had with the other banks. I enclose a copy of the text. My Secretary of State proposes to make the statement on Monday 19 June: I should be glad to know that you are content.

I am sending copies of this letter and the statement to the Private Secretaries to other members of the E(EP), to the Lord President, the Lord Privy Seal, Lord Denham and to Sir Robin Butler. A copy also goes to Bernard Ingham.

Yours sincerely

J Ratcliff

JOHN RATCLIFF

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Draft of 15.6.1989

THE ADMINISTRATION OF TOP-UP LOANS FOR STUDENTS

Oral Statement

1. With permission, Mr Speaker, I wish to make a statement about the arrangements for administering top-up loans for students.

2. The House will recall that I announced on 9 November the Government's proposals for introducing non-means-tested top-up loans. I said that from 1990, in addition to their grant, all home students in full-time higher education, except postgraduates, will be eligible for a top-up loan averaging over £400 in a full year. I explained that this will be offered at a real interest rate of zero and that repayments will be deferred when a graduate's income is low.

3. In that statement I made clear the Government's view that the top-up loan scheme would be best administered by the financial institutions. The scheme will of course be subject to the necessary legislation and, as I told the House, the Government will bring forward a short Bill to provide legislative authority for the scheme: I hope to introduce it at the beginning of the 1989/90 Session. I am glad to be able to tell the House that, following discussion with representatives of the Committee of London and Scottish Bankers, a scheme has been designed which is agreed to be a cost-effective and feasible means of introducing top-up loans in September 1990 as planned.

4. Under this scheme, there will be a private sector loan administrator, in the form of a company established and wholly owned by participating financial institutions, under contract to

the Government. Participation in this company will be open to a wide range of financial institutions. It is clear from my discussions with members of the Committee of London and Scottish Bankers that - subject to the satisfactory outcome of the contractual negotiations - a sufficient number of financial institutions will wish to participate from the outset to ensure that the company will be viable.

5. Under these arrangements, students who wish to benefit from top-up loans will obtain a certificate of entitlement from their university, polytechnic or college. These certificates can be presented to the branches of the banks and other financial institutions which own that company, or to the company itself, who will make the resources available to the student and maintain a record of the transaction. The Government will fund the company for the administrative costs of the scheme and, of course, for the loans themselves.

6. The Government has carefully considered the repayment system, in the light of the responses to the Top-Up Loans White Paper. We have concluded that repayment should be on the basis of equal amounts, adjusted annually for inflation, being repaid over a standard period. The obligation to repay will be deferred when a graduate's income falls below given levels in relation to average national income. Deferment will be arranged with the company on the basis of self-certification of income and subject to audit. In order to minimise any default on repayments, there will be a financial incentive under which the company will earn a proportion of its fee through securing a high repayment rate.

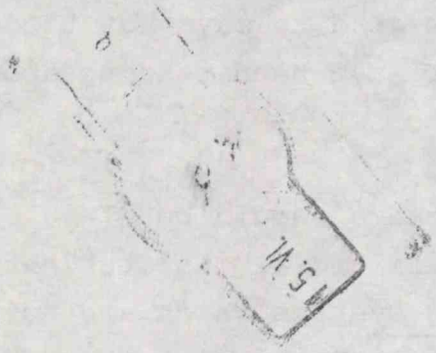
7. The Government will meet the costs of detailed preparatory work by the Committee of London and Scottish Bankers and by the company, in the period from now onwards. Parliamentary approval will be sought in an additional Supplementary Estimate, to be presented shortly. ~~Pending approval of that Estimate, urgent expenditure will be met by repayable advances from the~~

Contingencies Fund. We shall start immediate negotiations with the interested financial institutions in order to conclude a contract, which will of course be subject to the Royal Assent to the Act, to cover the running costs of the scheme. The range of costs indicated in the preparatory work is from £8.3 million to £11.5 million for start-up costs and £10.4 million to £14.0 million for annual operating costs. I am glad to say that these are many times smaller than the amounts I have been reading about in the Press over the last few months.

8. Mr Speaker, it is right that this scheme should be administered in the private sector. Our financial institutions possess skills in information and banking systems which are not readily available in the public sector. I am satisfied that these arrangements offer an efficient scheme and good value for money. I commend them to the House.

June 1989

EDUCATION: Student Loans
P2



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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

12 June 1989

Dear Tom,

STUDENT LOANS: ADMINISTRATION

The Prime Minister was grateful for your Secretary of State's minute of 6 June. She has also seen the Chief Secretary's letter of 9 June.

The Prime Minister is content for your Secretary of State to proceed as he proposes with administration of the student loan scheme by a consortium of banks and (possibly) other financial institutions, subject to the points raised by the Chief Secretary. On that basis she is content for your Secretary of State to see Lord Boardman in confidence today and to make an oral statement as soon as possible.

I am copying this letter to the Private Secretaries to members of E(EP) and Trevor Woolley (Cabinet Office).

Yours,
Paul

PAUL GRAY

Tom Jeffery, Esq.,
Department of Education and Science

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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

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

9 June 1989

Dear Secretary of State,

STUDENT LOANS: ADMINISTRATION

Thank you for copying to me your minute of 6 June to the Prime Minister. I was pleased to see that your discussions with the banks have reached the point where you feel able to announce publicly that they are willing to administer the Student Loan Scheme. Given the difficulties of the last 6 months, that is a welcome development.

Not quite so welcome, however, are the terms on which they seem to be prepared to take on the task.

These are, as you acknowledge, less favourable in a number of respects, than the arrangements we had hoped to be able to secure when we last discussed this issue in February. Before agreeing to drop the option of a public sector agency, we need therefore to be clear about several aspects of what is being proposed.

Of greatest concern are the arrangements for handling default. The experience of the United States shows that a student loan regime which does not tie responsibility for limiting default very closely to the fortunes of those who administer the loans, has major weaknesses. As you say, we had hoped to negotiate an arrangement whereby the banks' fee was directly related to their success in this area; with the implication that if they did badly, their fee would be considerably reduced - if not eliminated. If we are now to accept terms which guarantee the banks a minimum fee whatever their performance on default and leave only a proportion of their profits dependent on success in this area, then the risk which the Exchequer has to bear is inevitably greater. However,

as the alternative of a public sector administration would mean all the costs of pursuing defaulters falling on the Exchequer then I fear we have reluctantly to accept the banks' consortium as the lesser of two evils - though we must be especially vigilant in subsequent negotiations to obtain the most favourable contract terms we can on this issue.

There are other areas we need to watch carefully too. You will need to negotiate hard on both pay and accommodation to ensure that even though they are likely to be more generous in the private sector than in the public they will be no more than the minimum necessary for the work to be done effectively. You must seek to ensure that the gap - which you estimate at about £5 million a year - does not grow wider and that these additional costs are offset, at least in part, by tighter levels of staffing.

The proposed £2.5 million to £3 million a year to recompense banks for branch charges also needs to be challenged. Having students establish links with their local branches as a means of obtaining their loan, provides a valuable marketing opportunity for the banks which, we should argue, more than justifies the relatively small cost involved in handling loan applications.

Most important of all, however, is the need to be sure that the banks really are willing to take this scheme seriously and show the necessary level of commitment to have arrangements in place by September next year. If we are, as you propose, to pay more in order to get the benefit of greater certainty that that will be achieved, it is absolutely essential that it should ultimately be forthcoming. How certain are we that they will not use hard negotiating on our part as an excuse to back away and how confident can we be that they will weather the storm in the autumn if student protests revive when legislation is introduced into the House? As we have already agreed, autumn 1990 is the latest date when we can contemplate introducing loans this side of the next election. There is very little room for manoeuvre.

Finally, on a point of detail, the summary of the Price Waterhouse proposals attached as an annex to your minute says that the initial capital of the company will be provided by loans from the participating banks which the Government will repay. My officials have already discussed this point with yours and made clear our preference for DES directly funding the start-up cost of this operation so that no interest charges arise.

That said, and subject to your being able to give the necessary reassurance on the points that I have mentioned, I am entirely content for you to see Lord Boardman on 12 June or to make an oral statement shortly thereafter. I do not, myself, see a need for a meeting, though I would be happy to participate if other colleagues felt that one was necessary .

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

Yours sincerely,

P. Warless

JOHN MAJOR

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

SW2AWT

CONFIDENTIAL

PRIME MINISTER

STUDENT LOANS: ADMINISTRATION

You will recall the difficulties that Department of Education and Science and the Treasury have been having in their negotiations with the banks about the administration of a student loan scheme.

Mr. Baker's minute at Flag A reports on the position reached. He now thinks it will be possible to reach an agreement with a consortium of banks (and may be other financial institutions) so that the loan scheme can be up and running by September 1990. But it could be more costly - perhaps £5 million a year - than administering the scheme via a public sector agency within DES. However, Mr. Baker doubts whether a public sector agency could be made operational by September 1990.

So he concludes by seeking agreement to proceed with negotiations to finalise a deal with the banks.

John Major (Flag B) raises a number of queries and worries about the terms of such a deal. But subject to reassurance on these points he is content for Mr. Baker to proceed.

As to handling, Mr. Baker would like to talk to Lord Boardman in confidence on Monday and then make an oral statement as soon as possible after that. John ~~Moore~~ Major is also content with this approach. An alternative, if you wanted to consider further the public sector option, would be to add the issue to the agenda of next Wednesday's E(EP) meeting.

I have discussed all this with Brian Griffiths. He agrees with Mr. Baker's recommended approach.

Content for Mr. Baker to proceed as he proposes subject to meeting John Major's concerns?

PRCG.

(PAUL GRAY)
9 June 1989

CONFIDENTIAL

PRIME MINISTER

STUDENT LOANS: ADMINISTRATION

1. We are committed to the introduction of top-up loans for students in September 1990. I have in preparation the necessary Bill, which I will need to introduce at the beginning of the next Session if it is to achieve Royal Assent by Easter 1990. The other main step which is essential at this stage is to decide who is to administer the loans scheme, so that preparatory work can be put in hand immediately.

2. There are two contenders:

(a) a consortium of banks and (possibly) other financial institutions, working through a company that they will jointly own; or

(b) a public sector agency, on the "Next Steps" model.

As John Major and I agreed in February, each would have its running costs paid by government; each would be lending government money and returning the repayments to the Exchequer; and in the case of the private sector route, the company would be given a financial incentive to collect outstanding debts.

3. We have had long and, at times, difficult discussions with the clearing banks about their possible role in administering the scheme. Although they are not enthusiastic, and Lloyds may not take part at all, they have worked with us to come up with a

proposal - summarised in the Annex - which they have now told us in writing is feasible and cost-effective. They are confident that if we give them early agreement in principle they will be able to establish their company and have the loans scheme up and running by our deadline of September 1990. They have made it clear that, because it will take so long for the scheme to reach maturity, they are not attracted to a fee based on an assumed default rate, which John Major and I discussed in February. But they would be prepared to negotiate with us on the basis of a proportion of their fee being earned if they exceed an agreed benchmark collection rate.

4. The public sector alternative would be an agency within my Department. Much of the work of establishing it - recruiting staff, acquiring premises and computer hardware, and writing the necessary software - would be similar to what the banks would have to do and the loans scheme would operate in the same way.

5. There are two main differences between the routes. The banks' proposals would be more expensive. They are not prepared to run the scheme at a loss because they see nothing in it for them. So their present proposals include a profit and branch cost component adding up to some £3 million a year, which would not have to be paid if we pursued the public sector route. They would also have to pay the managers of their company at market rates - considerably higher than would be likely to be feasible in a public sector organisation; and their present assessment of premises costs is much higher than we would expect to pay. Overall the bank route might cost between £10m and £14m a year in the mid 1990's, perhaps £5m a year more than the public sector - but a tiny fraction of some of the figures bandied about by some academics and in the press. Their cost per student account would be between about £9 and £12 by 1995.

6. Against that, the banks offer a much better chance of having the scheme in place for September 1990. They are poised to act;

and they have readily available to them the necessary expertise should anything threaten to go off the rails between now and September 1990. I see no reason to doubt that they can and will deliver. I do doubt that the public sector route would succeed by 1990. My own Department does not have the necessary range of expertise - in information technology, systems development, unsecured lending and relations with the existing financial systems - and would have to buy it in. Taking into account also the potential delays caused by the need to carry central departments with us over staff numbers and terms of service, I judge that the risk of failing to be ready which is associated with the public sector route is unacceptably high.

7. So I recommend that I should announce that we have agreed in principle with the banks that they will set up a company to administer the loans scheme with effect from September 1990; and that we shall be going ahead on that basis, subject to agreement on a contract and to the passage of our legislation.

8. There would then be some tricky negotiations with the banks over the detailed contractual arrangements and the cost. But a report by Price Waterhouse, which we helped prepare, provides a good objective view of the costs and the banks have offered us a seat on the Board of the company. I am confident that we can secure good value for money.

9. I should be glad to know that you and E(EP) colleagues, to whom I am copying this minute, are content. I judge that we must give the banks a green light by the middle of June if they are to be able to assemble their management team before the summer break: any delay risks the September 1990 start date. So I hope you and colleagues will agree to my seeing Lord Boardman in confidence on Monday 12 June and making an oral statement as soon as possible after that. I should be happy to have a word with you or with John Major if that would be helpful; I have discussed the issue with Malcolm Rifkind and he is content with what I

propose. If you thought that we needed to discuss the issue collectively in E(EP), I hope we could add this item to the agenda of the meeting of that Committee on 14 June, perhaps in place of the discussion of student unions - but I hope you will agree that is not necessary.

10. I am copying this minute to the other members of E(EP), and to Sir Robin Butler.

KB

Department of Education & Science 6 June 1989

CONFIDENTIAL

ANNEX

PROPOSALS BY THE COMMITTEE OF LONDON & SCOTTISH CLEARING BANKS (CLSB) FOR THE ADMINISTRATION OF TOP-UP LOANS

1. The CLSB proposals are based on a feasibility study by Price Waterhouse, with which DES officials were closely involved. Its starting point was the detailed loan scheme established in a DES-chaired working group of financial institutions which reported to Ministers in January. The proposals are:

- a single private sector loan administrator in the form of a company wholly owned by participating financial institutions, under contract to the DES;

- students making applications for loans via the branches of the banks and other financial institutions which own that loans company;

- initial capital of the company being provided by loans from the participating banks, to be repaid (with interest) by government either in 1990/91 or over a period of 10 years;

- all the recurrent costs of operation, together with an element of Bank branch costs which probably conceals some profit, to be paid by the government;

- a government commitment to bear the residual bad debt after defaulters have been pursued energetically on the basis of an incentive scheme.

COSTS

2. The start-up costs are put at £8.3-£11.5 million (the range reflects different assumptions about software development costs; about eventual numbers, and therefore space; and about precise

location, though it would certainly be North of the Wash-Bristol line):

	£ million
IT systems	1.6 - 2.7
Premises	3.6 - 4.7
Professional fees	1.3 - 1.7
VAT	0.9 - 1.2
Other	0.9 - 1.3
	8.3 -11.5

3. Annual running costs, assuming that the initial loan is paid off in 1990/91 and excluding bank branch costs, are put (all at 1989 prices) at £6.3 - £8.6 million in 1991 and £7.9 - £11.0 million in 1995 (the range chiefly reflects different assumptions about the rate of build up of staff):

	£ million	
	1991	1995
IT systems	0.8 - 1.2	0.8 - 1.2
Premises	0.8 - 1.0	0.8 - 1.0
Staff	2.3 - 3.3	3.3 - 4.9
External staff (peak loads)	0.5 - 0.6	0.5 - 0.6
Other recurrent costs	1.0 - 1.2	1.3 - 1.7
VAT	0.4 - 0.6	0.5 - 0.7
Contingencies	0.5 - 0.7	0.7 - 0.9
	6.3 - 8.6	7.9 -11.0

4. The banks also propose that they should be recompensed, at £2.5-£3.0 million per year, for bank branch costs, which they say will be incurred in the handling of loan applications.

CONFIDENTIAL

FEASIBILITY

5. The report concludes on feasibility that, subject to further detailed analysis of costs and timetable, it is feasible to set up the vehicle by September 1990 provided that:

- the nature of the vehicle is acceptable;

- the government commits itself to provide funding, to take up the default liability and to reimburse any nugatory expenditure incurred before Royal Assent;

- the proposed timetable for action (which requires a mid-June start) is adhered to; and

- the actual pattern and volume of work is broadly similar to DES forecasts.

Department of Education and Science
June 1989

From: The Rt. Hon. KENNETH BAKER, M.P.

HOUSE OF COMMONS
LONDON, SW1A 0AA

1. Mr. Beaupark - to see
2. NBPM
PRCG
14/11 R 11/11

9 November 1988

Dear Wilmyne

Today I published the White Paper on the review of student support. In our 1987 Election Manifesto we said that the present system needed to be modernised to improve the overall prospects of students so that more were encouraged to enter higher education. We specifically mentioned top-up loans to supplement grants as one way of bringing in new finance to help students and reduce pressures on their parents.

We are now proposing to introduce top-up loans from Autumn 1990. A sum of around £400 per year, up-rated for inflation, will be available for students to draw on in addition to their maintenance grant and parental contribution. The top-up loan facility will not be means tested and will represent a substantial addition to the funds presently available to help students maintain themselves. It will be for each student to decide how much, or how little, of the top-up loan they wish to take up.

At present Britain has the most generous system of student support in the Western world. Yet fewer of our young people enter higher education than in other European countries. Furthermore, students from families in social classes C2, D and E which constitute 61% of our 18 year old population supply only 21% of university entrants. On all counts the present student support system has not delivered the access even its supporters wish to see.

We believe that our new proposals will widen access by guaranteeing extra resources for students in the form of top-up loans for all home students in full-time higher education. I am also setting up three new Access Funds to provide money on a discretionary basis to post-graduates, other higher education students in special financial need, and students in further education.

Currently, some 35% of parents fail to pay their contribution in full, thereby leaving their children with a shortfall in maintenance funds. The new top-up loan facility will help make this up. As for the average level of social security benefit which would otherwise be claimed by students in 1990-91 we estimate this to be about £150. With the top-up loan facility worth around £420 at the time of introduction in 1990 the average student would be £270 better off.

The top up loan proposal also has wider social merit. Until now, the increasing burden of student maintenance has fallen on parents, and taxpayers irrespective of whether they received the benefits of higher education. By freezing the maintenance grant at its 1990 level, and encouraging students to accept a fairer share of their own maintenance costs, we will reduce the proportion of those costs for other taxpayers. Students will be encouraged to become more economically self-reliant and will tend to see their education as an investment which they are making in their own future.

We have ensured that the repayment terms of top-up loans are such that students will not be deterred from taking them up. Repayments will not be required until the April after a student graduates. The top-up loan will have a real interest rate of zero, and repayments will be deferred for anyone earning less than 85% of national average income. Similarly, women who choose to start families after graduating will not be required to pay back any top-up loan until such time as they begin to earn. This compares very favourably with the current practice where about half of all students have outstanding debts of some £340, and lenders charge commercial rates of interest on this. Our new proposals will ease this burden for students.

I am confident that these proposals represent a new way forward for increasing access to higher education. They also go with the grain of our other policies which aim to make individuals responsible for their own choices. This proposal also represents the completion of the education commitments contained in our Manifesto.

Yours ever,

Kenneth.

Student Support (White Paper)

3.31 pm

The Secretary of State for Education and Science (Mr. Kenneth Baker): With permission, Mr. Speaker, I wish to make a statement about future arrangements for student support.

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

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

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

This top-up loan facility will not be means-tested. Students will be able to take up as much or as little of it as they wish. The present grant arrangements will continue, but the overall levels of grant will be frozen in cash terms at their 1990 levels. As the grant also incorporates in most cases a parental contribution, this means that over time the average parent will be paying less in real terms. From 1990, students' total resources in grant and top-up loan will continue to be reviewed annually. Any uprating to reflect cost increases will be applied only to the top-up loan facility until the top-up loan has risen to the same level as the grant and parental contribution taken together.

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

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

The level of the top-up loan will more than compensate the great majority of students for any loss of benefit. We estimate that the average level of social security benefit which would otherwise be claimed in 1990-91 is about £150. That compares with our loan facility of £420 in that year.

I recognise, however, that there may be local circumstances in which some further help may be needed, and postgraduate and further education students will not have access to loans. I will establish, therefore, three access funds, each of £5 million, to provide support on a discretionary basis to students in special financial need. The funds will be for postgraduates, other students in higher education, and students in further education. Their operation will be reviewed after three years. They will be administered by the colleges, central institutions, polytechnics and universities throughout the United Kingdom; these institutions are best placed to understand the circumstances of their students.

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

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

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

Mr. Jack Straw (Blackburn): This White Paper will reduce access to higher education, increase student and parental debt and deter many students from entering higher education. It proposes that knowledge be mortgaged in the future.

Is it not to the shame of the Secretary of State that this document contains no significant proposals for dealing with the real scandal—the numbers of young people who are forced out of education at 16-plus because of financial and other pressures? Is the Secretary of State aware that when the grant system was reasonably funded in the 1960s and 1970s there was a significant increase in access for lower income homes? Does he not know that the grant system gave many of us our only chance of higher education, and that he is now seeking to deny to others opportunities which even many Ministers had for themselves?

Is not the principal reason why working-class participation has levelled off in the 1980s the Government's appalling record of having cut student grants by 20 per cent. in real terms, increased the burden on parents and reduced the number of home students at university between 1980 and 1986?

The Secretary of State's hon. Friend, the parliamentary Under-Secretary of State, told us last week that public expenditure constraints have been so severe that they

"must inevitably lead to the progressive degradation"

of our finest universities. I quote the hon. Gentleman's document.

Will the Secretary of State confirm that it is simply fraudulent to describe the loans as top-up loans? He is not topping up the grant system but pulling it down. Will he

[Mr. Jack Straw]

confirm that he aims to replace at least half the grant and parental contribution with a loan? Will he confirm that the suggestion he made in the statement that parents will pay less in real terms is wholly misleading? If the parental contribution scale is frozen, many parents will have to pay significantly more. How does imposing such high burdens of debt on students and their parents square with the Prime Minister's injunction that people must be taught to live within their means?

Will the Secretary of State give the House a categorical assurance that the loans will not be extended to vouchers and tuition fees, as proposed in the Jackson memorandum? Will not such loans hit women disproportionately hard? Why does the Secretary of State not have the guts to admit that, as the Jackson papers have already told us, in private the Government care nothing about increased access and that the whole policy has been driven by the Chancellor's obsession with cutting public spending? Was the Tory Reform Group not correct to say that a loan scheme would

"reduce . . . access to higher education . . . lower standards and . . . produce a new class of poor graduates"?

Is it not true that the Secretary of State has failed to provide better opportunities for people at 16 plus, at 18 plus and in adulthood and has failed to improve the nation's skills? Instead of moving towards the 21st century, the proposals take us back to the 19th century. The Secretary of State has betrayed the nation's future.

Mr. Baker: The hon. Member for Blackburn (Mr. Straw) will want to study the proposals in detail. In reply to the point that he made about saving Government expenditure, I draw his attention to the fact that the net cost of the scheme to the Treasury will be £850 million, so there will be an increase in Government expenditure. I refer the hon. Gentleman to annex E of the White Paper, which contains a table showing the amount of money that will build up for the rest of the century.

In defending the present system, the hon. Gentleman is defending the indefensible. He is defending a system that has actually restricted access to higher education. The previous Labour Government, which the hon. Gentleman supported, not only restricted access but cut access to higher education and cut the number of students. The hon. Gentleman is defending a system in which 35 per cent. of students do not receive the full parental contribution.

Page 15 of the White Paper deals with parental contribution. We propose that from 1990, the grant plus parental contribution should be frozen and all increases applied to the loan top-up facility. The contribution scale will be changed to ensure that parental contribution does not rise to take up the entire amount. The chart shows that. After the scheme has been introduced, parents will be paying a substantially reduced amount to support their own children in higher education.

The hon. Gentleman was dismissive about the scheme. I remind him of the comments being made in higher education circles. *The Times Higher Education Supplement* —no supporter of the Government—says:

"The grant or loan debate is virtually over. The case for loans now has an unstoppable momentum."

The hon. Gentleman said this afternoon, and to the papers this morning, that Ministers have benefited from the present system yet want to end the system from which they themselves have benefited. I had a means-tested award which I supplemented from my own savings. I had saved money during my period of national service. I also worked during the vacations. Many of my generation would have been very glad indeed to have the facility of a top-up loan on the terms that I have announced.

I remind the hon. Gentleman of the positive advantage of the system. It will provide a guaranteed extra source of income for students, over and above their present grants. It will reduce the burden on parents, who are already hard pressed. We are establishing three access funds and giving institutions the chance to tailor packages to attract more students.

The hon. Gentleman asked about the numbers staying on at 16. In three or four days' time, I shall be publishing more statistics showing that the number of children staying on at 16 has increased from 32 per cent. to 48 per cent., and that is the important point. The Government have increased the number of students in higher education by nearly 200,000 since we came to office. However, we cannot go much further by relying on the present system, and that is why we are committed to change.

The Labour party is committed to nothing in this matter. I consulted its manifesto this morning and it had nothing at all to say about students and student support. I challenge the hon. Member for Blackburn to tell us what his policy will be. He has been in charge of Labour's education policy for two years now and there is no such policy. Labour's education policy is a vacuum filled by Straw.

Mr. George Walden (Buckingham): I congratulate my right hon. Friend on the scheme, which is both sensitive and fair. Having said that, I should like to offer a little destructive criticism. At the centre of the debate is access. There are three aspects to access. The first aim is to get the mix of grants and loans right, and I think that my right hon. Friend has done that. The second and far more important aim is to improve the quality of schools, and my right hon. Friend is doing that. But there is a third aspect, to which I attach great importance, because the Government seem to want——

Hon. Members: What is the question?

Mr. Speaker: Order. I am aware that the hon. Member for Buckingham (Mr. Walden) has some interest in this matter. However, there is to be a debate and I would ask him now to come to his question.

Mr. Walden: What is the attitude of my right hon. Friend the Secretary of State to the third aspect of access? It seems that the Government wish to generate a new generation of media morons by their broadcasting policy. I do not understand how that fits in with what my right hon. Friend proposes for the good of access or with what he is doing for schools. That is far more important for the promotion of social fairness than the mere mechanics of loans or grants.

Mr. Baker: I thank my hon. Friend for the work that he did on the student review when he was Parliamentary Under-Secretary of State for Education and Science. I also thank him for his support for the scheme that I have announced and for the reforms that we have been introducing in the education system. On my hon. Friend's last point about media morons, I do not believe that the proposals of my right hon. Friend the Home Secretary for the reform of television will necessarily lead to falling

cc. QUESTIONS PRESS PAB PG

TOP-UP LOANS FOR STUDENTS

Oral Statement by Kenneth Baker: 9 November

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

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

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

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

5. This top-up loan facility will not be means-tested. Students will be able to take up as much or as little of it as they wish. The present grant arrangements will continue, but the overall levels of grant will be frozen in cash terms at their 1990 levels. As the grant also incorporates in most cases a parental contribution this means that over time the average parent will be paying less in real terms. From 1990, students' total resources in grant and top-up loan will continue to be reviewed annually. Any uprating to reflect

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Q

Press.

MLB.

Prime Minister 2

PRCG

8/11

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

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

Paul Gray Esq
10 Downing Street
London
SW1A

8 November 1988

Dear Paul

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

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

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

Yours Sincerely

P V D Swift

P V D SWIFT
Private Secretary

TOP-UP LOANS FOR STUDENTS
Oral Statement on 9 November

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

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

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

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

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

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

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

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

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

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


08. XI.

CONFIDENTIAL

Ref. A088/3164

PRIME MINISTER

CABINET: TOP-UP LOANS FOR STUDENTS (C(88)14)

DECISIONS

1. The Secretary of State for Education's memorandum seeks the agreement of Cabinet to the publication of his White Paper on student support in the week beginning 7 November. He is expected to propose publication, and an oral statement, on Wednesday 9 November.

2. If any minor drafting comments are made, you may wish to ask that they be taken up direct with the Education Secretary outside the meeting.

BACKGROUND

3. The proposals in the White Paper are the result of a two-year review of student support, chaired successively by Mr Waldegrave and Mr Jackson. Last year's Election manifesto indicated that top-up loans to supplement student grants were under consideration.

4. Mr Baker has made some minor changes to the draft White Paper following E(EP)'s discussion last Thursday. The White Paper now reflects the decision that funding for undergraduates and post-graduates facing hardship should be kept in separate Access Funds (paragraphs 3.21-3.25). A reference to the Government being flexible in implementing its proposals, following consultation with interested

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parties including financial institutions, has been inserted in paragraph 3.2. One drafting oddity remains: the references to working class participation in paragraph 30 of Annex C.

ISSUES

5. We are not aware of any outstanding issues of substance. The following points may be made in discussion:

a. Financial Institutions. Mr Baker is planning to see the Governor of the Bank of England and senior representatives of banks and building societies on Thursday, to seek an assurance from them that the financial institutions will not criticise the loan scheme when the White Paper is published. He may propose to strengthen the wording in paragraph 4.1 about the desirability of financial institutions administering loans. We understand that the Chief Secretary is optimistic that at least some institutions will be prepared to co-operate on reasonable terms.

b. Publication Date. Mr Baker, following further consultation with the Lord President, is expected to propose that Wednesday 9 November would be the best day for his announcement. You may find it helpful to have the attached reminder of some of the main events up to the end of the spillover session.

c. Draft White Paper. The Chief Secretary may propose that a reference to the temporary nature of the Access Fund for undergraduates and to the proposal that it is to be reviewed after three years should be included in the White Paper.

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d. Legislation. The Lord President has suggested to Mr Baker that some of the references to legislation would appear to anticipate the Queen's Speech at the start of the 1989-90 Session and should be toned down.

HANDLING

6. You will wish to invite the Secretary of State for Education and Science to introduce his Memorandum briefly. The Chief Secretary, the Lord President of the Council, the regional Secretaries of State and other Ministers may wish to comment.

F.E.R.B.

ROBIN BUTLER

31 October 1988

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ANNEX

Major Events and Planned Announcements until the end of the Spillover Session

Tuesday 1 November	Autumn Statement
Wednesday 2 November	Prime Minister's visit to Poland (until 4th)
	Deregulation White Paper
Thursday 3 November	Closure of North East Shipbuilders Limited
Monday 7 November	Broadcasting White Paper
Tuesday 8 November	US Presidential Election
Wednesday 9 November	Student Support White Paper
Thursday 10 November	Report on Kings Cross Fire
Monday 14 November	Prime Minister's speech ~~at~~ Guildhall
	Prince of Wales's Fortieth Birthday

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PRIME MINISTER

MEETING OF E(EP): 27 OCTOBER

You saw over the weekend Kenneth Baker's paper on student loans (Flag A). Further papers now enclosed are:

Flag B: Cabinet Office brief

Flag C: Letter from Nicholas Ridley pursuing his concern that there is to be no specific uprating of student grants to take account of students' Community Charge liability. (This issue is covered in the Cabinet Office brief.)

Brian Griffiths is content with the line taken in Kenneth Baker's paper.

The Cabinet Office brief identifies the outstanding points, and I suggest you use this to steer the discussion.

PRC.

Paul Gray

26 October 1988

B

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P 03252

PRIME MINISTER

STUDENT SUPPORT

E(EP)(88)20

DECISIONS

Mr Baker seeks agreement to the introduction of a new system of student support from autumn 1990, following the further consideration he has given to this over the summer.

2. There are three main issues outstanding from E(EP)'s discussion in July. You may wish to take these first:

i. students and benefits. Mr Baker has now agreed with Mr Moore that virtually all the 125,000 students who will not be eligible for top-up loans should have their access to social security benefits removed, in exchange for an increase in the hardship Access Funds of £10 million a year;

ii. Community Charge. Mr Baker proposes that there should not be a specific increase in student grants in recognition of the introduction of the community charge;

iii. timetable. You may wish to check that the business managers are confident that the necessary legislation for the proposed regime of student support can be passed by Easter 1990, if introduced at the beginning of the 1989-90 session.

3. The Secretary of State for Education, the Chancellor of the Exchequer and the Secretary of State for Social Services will all now want to see an early announcement on student support. The Chancellor is however expected to raise three further issues:

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i. role of the financial institutions. The initial reaction of the financial institutions who would be asked to administer the loan scheme has been disappointing. The Chancellor believes that, with a little pressure, they will come round. No decisions are needed now, but you will wish to be satisfied that some satisfactory way of administering loans can be found;

ii. Access Fund. The Chancellor may argue that the first Access Fund of £5 million, agreed in July, should be kept separate from the additional £10 million for postgraduates and non-advanced further education students. This would allow E(EP)'s decision that the first Access Fund should be reviewed after three years to stand;

iii. White Paper. The Chancellor may say that the draft White Paper is too long and complicated. A shorter White Paper, which preserved greater flexibility on how a loan scheme might operate, would be preferable. He may raise specific points about repayment methods and the moratorium on new courses.

4. Mr Baker wants to make an announcement, and publish his White Paper, just before the spillover session ends if possible. If you agree to proceed on this timetable, you may wish to ask Mr Baker to make an oral report to Cabinet on Thursday, 10 November. Depending on the discussion, you may also wish to ask that a revised draft of his White Paper be circulated in advance of 10 November for approval.

BACKGROUND

5. E(EP) was strongly attracted in principle to Mr Baker's proposals on student support when it considered them in July. However, it was agreed that no decision could be announced until further consideration had been given to the issues listed in paragraph 1 above. To make progress Mr Baker has now accepted Mr Moore's proposal that virtually all students over 19 should be removed from the benefit system, in exchange for a £10 million addition to the hardship Access Funds. He has also agreed with the

Chief Secretary during the Survey that the student grant should be increased in line with GDP, but that no further increase should be provided when the community charge is introduced.

6. There seems likely to be broad support for Mr Baker's revised proposals. In July, however, the Chancellor, Mr Fowler and Lord Belstead expressed caution about extending the removal of social security benefits to students who would not receive loans, given the controversy this could cause. Mr Walker did not attend in July, but he has made known his preference for retaining the current regime of student support on a number of occasions, most recently in a letter to Mr Baker of 19 August.

ISSUES

Access to social security benefits

7. It was agreed in July that the 530,000 students with mandatory or full discretionary awards, who would receive top-up loans, should no longer have access to income support or housing benefit, unless they were disabled or single parents (under 2,000 in total). Mr Moore proposed that a further 125,000 students, mostly postgraduates and those in non-advanced further education, should also be removed from the benefit system, and that additional hardship Access Funds should be provided instead. Although Mr Baker has slightly revised the eligibility criteria for loans (in order to avoid local authority involvement in providing loans), broadly he has accepted Mr Moore's proposal.

8. You will wish to decide whether to endorse this proposal. Given the caution expressed in July, and Mr Walker's doubts (see paragraph 6 above), there may be some discussion on its merits. The key points are:

i. withdrawal of support. On the one hand, it may be argued that benefits would be withheld from students with little or no grant or visible means of support, and the cash-limited Access Funds would be inadequate. But against this, restricting access

to the social security system has the major advantage that future generations of students will not become drawn into the benefit and dependency culture;

ii. take-up by students. It may be argued that fewer students would enter higher and further education without full awards. But Mr Moore said in July that only 25,000-30,000 out of the 125,000 currently claimed benefits.

iii. controversy. It may be argued that the student loans Bill would become considerably more controversial and difficult to get through Parliament, particularly the House of Lords, if this was added in. But the point was made at the last meeting that access to benefits would be governed by separate social security regulations. Our understanding is that the withdrawal of benefits would be effected by an Order subject to negative resolution procedure under the Social Security Act 1986, without any need for the Bill to deal with social security.

Review of the £5 million Access Fund for Students Receiving Loans

9. It was agreed in July that an Access Fund of £5 million a year be provided to assist with students facing hardship. The Treasury agreed to fund this as part of the original proposals, to counter criticism that the 30,000-40,000 who currently claim more in benefits than the average loan of £420 would be "losers". They argued that this Fund should be temporary and reviewed after three years, and E(EP) agreed to this. The Chancellor is therefore expected to ask that this Access Fund for students receiving loans should be kept separate from the additional £10 million for postgraduates and other further education students. He acknowledges that the latter is likely to be permanent, and indeed it will be funded by a PES transfer on that basis. He may also want the White Paper to indicate the temporary basis of the original £5 million fund. You may wish to support him.

Size of Access Funds

10. There is a separate question of whether the sums of £10 million for Access Funds in higher education (to include postgraduates) and £5 million in non-advanced further education are appropriate. In July Mr Baker proposed a single fund of £5 million, principally to assist the 30,000-40,000 students who claimed benefits of more than the £420 average loan. Mr Moore suggested in July that benefits paid to the 125,000 students who would not receive loans currently cost £8-10 million a year. The revised proposal is therefore for £15 million a year of hardship funding. Mr Moore has agreed to provide a PES transfer of £10 million to make up the difference. The following points may be raised in discussion:

a. it has been suggested previously that it was difficult to provide reliable estimates of the benefits paid to students not receiving full awards. How confident is Mr Moore that his figure of £8-10 million is correct?

b. will the administrative costs of institutions operating Access Funds have to be met out of the £15 million? These could be quite substantial, particularly if conditions are attached to grants, or if loans are made as proposed in paragraph 3.23 of the White Paper. The administrative costs of paying out benefits to students apparently can on occasion exceed the benefit paid, according to paragraph 3.31 of the White Paper;

c. Mr Ridley's letter of 29 September to Mr Moore suggested that students could have expected much higher housing benefit under the present system to compensate them for higher accommodation costs after rent deregulation next year. Mr Moore will probably say that this has been allowed for in computing the £15 million;

d. paragraphs 3.20 and 3.24 of the White Paper suggest that £15 million is required for England and Wales alone, with proportionate additional amounts for Scotland and Northern

Ireland. It is not clear that the Treasury and the territorial Ministers accept this. You may wish to ask the Ministers concerned to sort this out between themselves.

Introduction of the Community Charge

11. Mr Ridley suggested in July that consideration should be given to changing the level of student support in recognition of the introduction of the community charge. In his recent PES settlement Mr Baker has agreed that there should be no such increase. The Treasury will be most unwilling to re-open this. They argue that the loan scheme will provide more than sufficient headroom to accommodate community charge payments. Out of average loan support of £420, students may have to pay on average around £50 in community charge (if the full average national charge is around £250). In addition, many students will no longer have to make contributions to rates.

12. Mr Ridley has raised this issue regularly during the Survey, because he is anxious to minimise the number of "losers" when the community charge is introduced, but has made no progress. He is unlikely to receive much support from other Ministers at the meeting. The Treasury have estimated that the concession Mr Ridley seeks would cost some £20 million a year from 1990-91 onwards.

Passage of Legislation

13. The aim is to implement the scheme by autumn 1990. This requires Royal Assent for the Student Loans Bill by Easter 1990. Before reaching a final decision on restricting benefits and on the community charge, you may wish to ask the business managers to confirm that they are still satisfied that they can meet this timetable on the basis proposed.

Administration of Loans of Financial Institutions

14. Mr Baker refers in paragraph 8 of his Note to the initial contacts his department has had with financial institutions. You may wish to ask him to expand on this. Does he remain confident that banks and building societies could administer loans cost-effectively?

Does he intend to get individual institutions to compete for the business? What alternative arrangements for administering loans is he considering "as a matter of urgency"?

15. Representatives of banks and building societies have apparently suggested at a preliminary meeting that the loans scheme should be simplified if they are to administer it at a reasonable cost. The Chancellor believes, however, that with a little pressure they will decide to co-operate with the present proposals. Mr Baker never intended that the arrangements with the banks and building societies should be worked up in detail prior to an announcement. You may however wish to be assured by him that some satisfactory arrangements for administering the loans can be put in place by autumn 1990, before agreeing to any statement.

White Paper

16. You will wish to consider if the draft White Paper has the right emphasis. The present draft contains a detailed justification for the Government's proposals, but you may consider that it could be shortened and tightened up to provide a more positive and less defensive approach (for example, one of the annexes is headed "Potential difficulties with loans"). You may wish to comment on the following:

a. repayment methods. Is it appropriate to describe four possible options (paragraph 3.14) and to express a preference for option D (relating repayments to the level of taxable income) when this is the most administratively complex and when it also increases marginal tax rates? The Chancellor will be keen to avoid any Inland Revenue involvement in repayments. More generally, it seems wise to be less specific about the administrative arrangements for loans, to preserve flexibility in future discussions with banks and building societies;

b. moratorium on approval of new courses for mandatory grant purposes. Paragraph 3.35 may be a try-on, since Mr Baker reports in paragraph 6 of his covering Note that he withdrew his bid in the recent Survey for lifting the moratorium in 1989-90. It is possible that he may be able to make some limited adjustments to the moratorium within his existing provision. Even so, it seems unwise to refer to the moratorium in the White Paper;

c. drafting improvements. There are a number of drafting oddities: for example, the reference to working class participation in paragraph 30 of Annex C and the statement that "the prospect of debt burden will discourage participation..." in paragraph 2(i) of Annex G. More generally, it is debatable whether some of the annexes need to be as detailed as proposed (the annexes on economic arguments and costs and savings have not yet been circulated).

17. You may wish to ask Mr Baker to circulate a revised text to the Cabinet, for consideration on 10 November, taking account of decisions taken and points made in discussion.

HANDLING

18. You may wish to ask the Secretary of State for Education and Science to introduce his paper. The Chancellor of the Exchequer may wish to comment first, followed by the Secretary of State for Social Security and the Secretary of State for the Environment. The Lord President of the Council and the Lord Privy Seal may wish to comment on the Parliamentary handling and timetable, and the regional Secretaries of State in view of their individual responsibilities for education. Other Ministers may wish to contribute to the discussion.

RTJW.

R T J WILSON
Cabinet Office
25 October 1988

CONFIDENTIAL

cc BG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

01-276 3000

My ref:

Your ref:

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

25 October 1988

Dear Kenneth

THE COMMUNITY CHARGE AND STUDENT GRANTS

minutes attached

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

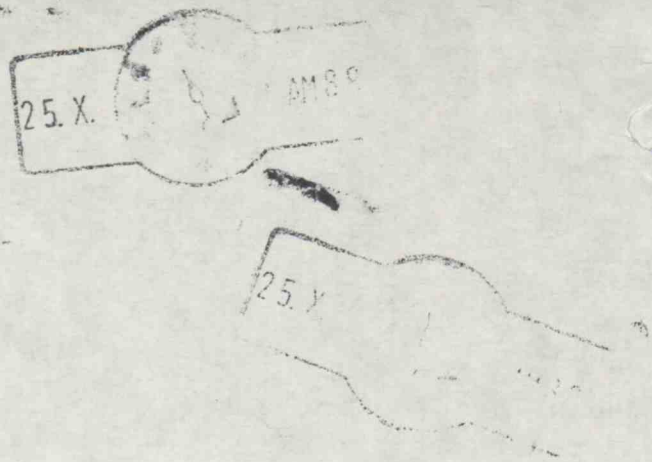
I have no option but to accept your and Malcolm's decision. I do think, however, that colleagues need to be aware of it and its consequences. We must expect a very unfavourable reaction, and accusations that we have treated students unfairly, particularly by comparison with income support recipients,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

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

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

Yours ever
Nicholas

NICHOLAS RIDLEY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PRIME MINISTER

MEETING OF E(EP): THURSDAY 27 OCTOBER

Next Thursday's E(EP) meeting is to discuss student loans. Kenneth Baker's paper (enclosed) has just been circulated and you may like to have a first look at it over the weekend. Cabinet Office and Policy Unit briefing will be available next week.

PAUL GRAY

21 October 1988

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CCPU

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

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

NB PM at this stage.
PRCG 29/9

29 September 1988

Dear John

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

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

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

Yours ever
Nicholas

NICHOLAS RIDLEY

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

EDUCATION: Student Hours
Pt 2



ECPO

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Richmond House, 79 Whitehall, London SW1A 2NS
Telephone 01-210 3000

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

CONFIDENTIAL

NBPM at this stage.

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

19 September 1988

Dear Kenneth,

STUDENTS AND BENEFITS

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

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

Yours ever
John

JOHN MOORE

CONFIDENTIAL

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

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

19th September 1988

Dear John.

STUDENTS AND BENEFITS

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

Yours

Kenneth

CONFIDENTIAL

TH/0397t

IM

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Richmond House, 79 Whitehall, London SW1A 2NS
Telephone 01-210 3000

From the Secretary of State for Social Services

CONFIDENTIAL

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

14 September 1988

Dear Kenneth.

STUDENTS AND BENEFITS

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

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

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

JOHN MOORE

cc Mr Bromley
Mr Creasby 03
Ms Rintoul
Mrs Bowtell
Mr Whippman
Mr Chislett
Miss Blunt
Mr Brereton

Mr Milner

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Richmond House, 79 Whitehall, London SW1A 2NS
Telephone 01-210 3000

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

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

2 September 1988

Dear Tom,

STUDENTS AND BENEFITS

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

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

Yours sincerely

Rod Clark

ROD CLARK
Private Secretary

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

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

28 August 1988

Dear John

STUDENTS AND BENEFITS

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

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

Yours

Kenneth

DEPARTMENT OF SOCIAL SECURITY
Richmond House, 79 Whitehall, London SW1A 2NS
Telephone 01-210 3000

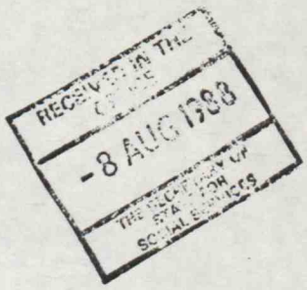
From the Minister of State for Social Security and the Disabled

CONFIDENTIAL

cc: Mr Clark
Miss Libby
Mrs Rooker
Mr Nightingale
Mrs Bonnell
Mr Whyman
Mr Chidgey
Miss Bhatt
Mr Brereton
Mr Cleasby

08 AUG 1988

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



Dear Kenneth,

STUDENTS AND BENEFITS

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

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

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

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

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

i. to wean students from the dependency culture;

ii to sharpen accountability - educational support should be fully visible and provided through the education system.

iii. to reduce the administrative burden caused by providing individual students with relatively small amounts of means-tested benefits.

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

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

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

E.R.

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

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

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

Yours ever,

Nick.

NICHOLAS SCOTT



CABINET OFFICE
9000
- 1 SEP 1988
FILING INSTRUCTION
FILE No. .....

RA

PRC6
9/9

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

cc - Mr Wilson
Mr Nielson

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

28 August 1988

attached
requested
1
- yes please.
PRC6 2/9
will request
if reqd.

Dear John

STUDENTS AND BENEFITS

below

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

attached

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

cc. Mr P. Gray

Mr Monger

He seems to be planning to hold his own mini-E(EP): that is, E(EP) minus the Prime Minister, Mr Ridley and the non-Departmentals. I am wary of this. I have therefore spoken to DHSS who are minded to advise Mr Moore on return to reply that work by officials should continue, so that there is an agreed exposition of the options; and that while he would be prepared to have a private bilateral meeting with Mr Lawson he would prefer collective discussion to be in a full, not a partial, E(EP) DTI


02.IX.
PARIS

DHSS

With the Compliments of

Department of Health and Social Security

AS REQUESTED.

Richmond House
79 Whitehall
London SW1A 2NS
Tel. No. 01-210 5124

Kathleen Cole

vh/0322t

Carbons

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Richmond House, 79 Whitehall, London SW1A 2NS
Telephone 01-210 3000

From the Minister of State for Social Security and the Disabled

CONFIDENTIAL

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

08 AUG 1988

Dear Kenneth,

STUDENTS AND BENEFITS

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

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

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

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

E.R.

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

i. to wean students from the dependency culture;

ii to sharpen accountability - educational support should be fully visible and provided through the education system.

iii. to reduce the administrative burden caused by providing individual students with relatively small amounts of means-tested benefits.

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

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

E.R.

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

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

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

Yours ever,

Nick.

NICHOLAS SCOTT



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DES
Mr Summers
ADVICE / INFO ✓
COPIES
Ms Scott
Mr P Wardle
Mr M Wardle
Mr Sanders
* Mr M Baker
Mr Hull.

HC. 8

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

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

28th July 1988

Dear John,

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

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

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

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

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

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

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

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

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

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

dti

the department for Enterprise

CCPU

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

.P B Jeffery Esq
Private Secretary to the Secretary of
State for Education and Science
Department of Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

Department of Trade and Industry

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London SW1H 0ET

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Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5423
Our ref PS2BCS
Your ref
Date 26 July 1988

Dear Mr Jeffery,

STUDENT SUPPORT

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

The second sentence in paragraph 3 should read:-

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

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

Yours sincerely,

Gareth Jones

GARETH JONES
Private Secretary

the Enterprise initiative

EDUCATION: Student Loans

26. VII

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

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

25 July 1988

STUDENT SUPPORT

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

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

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

EDUCATION: Student Loan
P 2



dti

the department for Enterprise

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

The Rt Hon Kenneth Baker MP
Secretary of State for Education
and Science
Department of Education and Science
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Direct line 215 5422
Our ref PS1BFE
Your ref
Date 20 July 1988

Dear Kenneth,

STUDENT SUPPORT

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

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

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

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

Yours ever,
Nigel

the Enterprise initiative



CONFIDENTIAL

P 03184

PRIME MINISTER

STUDENT SUPPORT

E(EP)(88)13

DECISIONS

Mr Baker seeks agreement to the introduction of a new regime of student support from Autumn 1990. Most students would be able to apply for top-up loans, but they would no longer have access to social security benefits. Ministers who have not been closely involved to date may wish to comment on the broad principles and political implications.

2. Once the Government has publicly adopted this scheme there can be no turning back. You may therefore wish to seek two specific assurances before discussing the proposals:

i. that the business managers are confident that they can ensure that the short enabling Bill will receive Royal Assent by Easter 1990;

ii. that Mr Baker can guarantee that it will be practical to introduce his scheme in Autumn 1990 if the enabling Bill receives Royal Assent that Easter.

3. The main issue for decision is whether the Sub-Committee approves the introduction of this new scheme from Autumn 1990. Mr Baker lists a number of specific aspects on which he wishes to have formal endorsement in paragraph 17 of his paper. We understand that the Chancellor of the Exchequer is being briefed to raise points on the proposal for an Access Fund (paragraph 17 ii) and for lifting the moratorium on new courses (paragraph 17 iii); but that

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

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

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

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

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

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

Yours,

Kenneth

he generally supports the proposals. The Secretaries of State for Scotland and Northern Ireland support the broad principle of the proposals. The Secretary of State for Wales is said not to favour loans; he will not be at the meeting but will be represented by his Minister of State, Mr Roberts.

No; "before we rise - see para 17 VIII of his paper. A White Paper in the Autumn

4. On handling, Mr Baker proposes to announce the scheme by way of a Written Answer in the Autumn. You will wish to decide whether this is the right approach and whether Mr Baker should be invited to report to Cabinet on Thursday next, 21 July, and give his written Answer that afternoon.

BACKGROUND

5. Mr Baker's proposals are the result of a two-year review chaired by Mr Jackson. The Government's election manifesto said that:

> "As part of our aim to widen access to higher education we have begun a review of student support which is the most generous in the western world. We need to modernise this system which has not changed for 25 years. The purpose of the review is to improve the overall prospects of students so that more are encouraged to enter higher education. No final conclusions have been reached, but we believe that top-up loans to supplement grants are one way, among others, of bringing in new finance to help students and relieve pressure on their parents. We will take care to ensure that the best aspects of the present system are retained in any new proposals which we bring forward."

ISSUES

Principles

6. Mr Baker says his intention is to reduce students' dependency on State funding through getting them over time to bear a higher proportion of their own maintenance costs and by removing their entitlements to social security benefits. In discussing the broad principles of these proposals and their political implications, colleagues may ask:

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a. whether they will further the objective stated in the manifesto of widening access to higher education;

b. whether it is appropriate to add another controversial measure to the Government's programme of major reforms;

c. whether the scheme justifies the significant public expenditure cost on its introduction. It would however reduce public expenditure in the long term.

Specific Proposals

7. A list of specific points may be raised in discussion on the scheme. The more important points are dealt with below. You could suggest that detailed issues should be followed up bilaterally with Mr Baker. You may also wish to ask for the White Paper to be circulated in draft for comment in good time before publication.

Introduction of the Scheme

8. Mr Baker proposes that loans should be introduced for all students from Autumn 1990. He wants a decision on this now. It is not the least expensive option. A cheaper option would be to phase introduction by offering loans only to students who started courses in 1990 or later. Phasing would save £65m in the 1990-91 academic year and £32m in the 1991-92 academic year. It would however be more complicated to administer, particularly for DHSS who would have to establish whether students were in receipt of loans and therefore not entitled to benefit. We understand that the Treasury are likely to accept that phasing should not be pursued.

Repayment

9. Mr Baker also wants a decision on the repayment for loans. In essence he suggests that students on 3-year courses should normally repay in 5 years. Those earning less that 85 per cent of average earnings in any year would be able to postpone payment for that year. You may wish to note that:

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i. the risk of default may in practice turn out to be an important point. Mr Baker assumes 10 per cent default, but we understand that in the United States 25-30 per cent of loans are apparently defaulted.

ii. No interest is charged in real terms. The repayment arrangements therefore involve a considerable interest rate subsidy from the State which will be available to all students without incomes testing.

10. At a more detailed level, a number of issues still need to be settled about the calculation of repayments and the provision for deferment of payments in years of unemployment or low income. A number of options are set out in Annex B. You may wish to ask Mr Baker to settle these points with the Chief Secretary and, where appropriate, the Secretary of State for Social Services.

Relative values of grants and loans

11. The question whether the relative values of grants and loans have been pitched at broadly the right level has been the subject of considerable discussion. The proposal for a loan of £420 with the level of grant unchanged has been arrived at after lengthy negotiations between education Ministers and the Treasury. We understand that the regional Education Ministers placed particular importance on not reducing the level of grant available after loans were introduced. A number of aspects could be questioned: for instance, whether the initial loan is too small for the scheme to be worthwhile, and whether an interest rate subsidy by indexing repayments to the RPI is appropriate. Mr Baker and the Chancellor are, however, likely to resist any suggestion of changing elements of the financial arrangements, in view of the lengthy negotiations needed to arrive at an agreement. The Treasury have accepted that the extra public expenditure costs of the scheme over the first decade or so can be an agreed addition to the Education Ministers' provisions.

Relationship to DHSS claims for relief?

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Treasury concerns

12. The Chancellor is being briefed to raise three points on Mr Baker's proposals:

a. that the description of the scheme should not say that the grant element is being frozen at its 1990-91 level (paragraph 3ii), but that it would not be increased above that level. The Treasury want to retain the option of a cut in the grant some years after introduction of the scheme, so that the grant and loan can be balanced more quickly. Mr Baker has resisted this. You will wish to judge the practicality of reducing the cash level of the grant in any particular year in reaching a judgement.

b. that the £5m a year Access Fund should be regarded as a temporary measure. The purpose of this Fund is to prevent some 30,000 students claiming that they will be worse off under the new regime because they currently receive more than £420 a year in benefits. Such students are principally those claiming substantial levels of housing benefit to pay rents in London. You may think the Treasury proposal is sensible.

c. that the decision on lifting the moratorium on approval of new courses does not need to be taken at this meeting, but should be settled in the Survey. The Treasury thinks that this is incidental to the student support proposals, and is simply an attempt by Mr Baker to remove a restriction which DES have wished to lift for a number of years. A bid for £6.6 million to cover this has been submitted by Mr Baker and you may wish to endorse the Treasury's suggestion that it be considered in the Survey in the usual way.

Financing of the loans

13. Mr Baker proposes, with Treasury agreement, that the Exchequer should finance the loan scheme, but that it should be administered by banks and building societies in the private sector (paragraph 13). He says that a true private sector financed scheme could not be implemented by 1990 but he keeps open the possibility for the longer term You may wish to ask what the difficulties would be.

NB: The scheme would be 100% Exchequer backed

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Unresolved Issue

14. The issue of whether social security benefits should be withdrawn from students receiving less than a full grant has not yet been resolved (paragraph 11). Discussions between Mr Baker and Mr Moore are continuing. You may want to ask to be told the outcome.

Views of other Ministers

15. We understand that, with the exception of the issues identified in paragraph 12 above, the Chancellor and the Chief Secretary support Mr Baker's proposals and are strongly committed to the principle of loans. Mr Rifkind and Mr King are prepared to go along with Mr Baker in principle, although without great enthusiasm. Mr Walker is said not to favour loans. However, he has decided to fulfil a commitment to visit the Mid Wales Show on Tuesday, and to send the Minister of State for Wales (Mr Roberts) as his representative to E(EP).

Announcement

16. Mr Baker proposes to announce the loan scheme in a written answer before the recess. You may wish to ask the Lord President whether Parliament would expect an oral statement on this issue.

HANDLING

17. You may wish to ask the Secretary of State for Education and Science to introduce his paper and check that he, the Lord President and the Lord Privy Seal are certain that the timetable leading to Autumn 1990 is practicable, both in Parliamentary terms and administratively. The Chancellor of the Exchequer and the Chief Secretary, Treasury may wish to comment first on the proposals, followed by the Secretaries of State for Scotland and for Northern Ireland and the Minister of State for Wales. The Secretary of State for Social Services has been invited to discuss the implications of removing benefit entitlements from students. The Parliamentary Under-Secretary of State for Education and Science (Mr Jackson), who chaired the review of student support, has been asked to attend. Other Ministers may wish to contribute to the discussion.

R T J WILSON
Cabinet Office
15 July 1988

RJW.

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STUDENT SUPPORT - THE NEW REGIME



STUDENTS WITHIN THE SCHEME

MANDATORY AWARD HOLDERS

SEE NOTE

FULL-VALUE DISCRETIONARY AWARD HOLDERS

STUDENTS OUTSIDE THE SCHEME

POST-GRADUATE STUDENTS

LESSER-VALUE DISCRETIONARY AWARD HOLDERS

STUDENTS NOT IN RECEIPT OF AN AWARD

NOTE: STUDENTS WITHIN THE SCHEME IF THE MORATORIUM ON SPECIFIC DESIGNATION IS LIFTED (3,000) & PREVIOUS STUDY RULES ARE RELAXED (2,000)

CONFIDENTIAL

089

File

bc: Richard Wilson (Cco)
Policy Unit

10 DOWNING STREET

From the Principal Private Secretary

13 July 1988

Dear Tom,

STUDENT LOANS

I have shown your letter of 12 July to the Prime Minister. She has noted your Secretary of State's view that if we do not get the Bill through Parliament by Easter 1990, we should abort the scheme altogether. The Prime Minister believes that once the Government has embarked on the student loan scheme, it cannot be aborted. It has to be got through in time for implementation by autumn term 1990.

I am copying this letter to Alison Smith (Lord President's Office), Murdo Maclean (Chief Whip's Office) and to Sir Robin Butler.

Yours ever,

Nigel Wicks

N. L. Wicks

Tom Jeffery, Esq.,
Department of Education and Science.

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089

CONFIDENTIAL

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

Prime Minister 2

I have told RB Baker's office on X below that once we embark on the scheme, we cannot abort it. We have to get it through in time for implementation by Autumn Term 1990. N.L.W. 12-7.

N L Wicks Esq
10 Downing Street
LONDON W1

12 July 1988

Dear Nigel

STUDENT LOANS

Thank you for your letter of 4 July. My Secretary of State has taken on board the points in it and in the Lord President's minute of 30 June. In particular, he accepts that we should think of the necessary legislation receiving Royal Assent by Easter 1990. He would emphasise, however, that if we do not get the Bill through Parliament by that date we should in his view abort the scheme altogether.

X /

We are arranging for circulation of his paper to E(EP) forthwith.

Copies of this letter go to the Private Secretaries to the Lord President and the Chief Whip, and to Sir Robin Butler.

Yours sincerely

Tom Jeffery

T B JEFFERY

EDUCATION: Student Loans Pt 2



CONFIDENTIAL

10 DOWNING STREET

RESTRICTED DISTRIBUTION REQUIRED

SEE INSTRUCTIONS IN LETTER

CONFIDENTIAL

CONFIDENTIAL

Cile SR

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

4 July 1988

Dear Tom,

STUDENT LOANS

The Prime Minister has seen your Secretary of State's minute of 23 June and the Lord President's of 30 June about the possible legislative timetables for student loans.

I should be grateful if you could ensure that this letter is given a very limited circulation and is dealt with on a strict need to know basis, being seen only by those who have an operational need to do so.

The Prime Minister agrees with your Secretary of State and the Lord President that it will not be possible to include a Student Loans Bill in The Queen's speech for the next session. She accepts too the advice of the Lord President that if the Bill is to be included in the 1989-90 programme, it will be unrealistic to think of it being enacted by January 1990, and that it would be sensible to reckon on a Bill of this kind receiving Royal Assent around Easter 1990. With that timetable in mind, the Prime Minister is ready for E(EP) to consider your Secretary of State's paper on student loans, provided that your Secretary of State can confirm that there will be sufficient time to bring a student loan scheme into operation, if one is agreed, for the autumn term 1990, even though the legislation would not have received Royal Assent until Easter that year.

Finally, the Prime Minister supports the Lord President's view that Parliamentary Counsel should not be asked to divert attention from the very heavy programme of Bills that is going before Parliament in order to prepare, at the end of this year, the Student Loan Bill on a contingency basis.

I am sending a copy of this letter to the Private Secretaries to the Lord President, the Chief Whip and to Sir Robin Butler.

Yours ever,
Nigel Wicks

N. L. WICKS

Tom Jeffery, Esq.,
Department of Education and Science

CONFIDENTIAL

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PRIME MINISTER

STUDENT LOANS

The Lord President has now commented, at Flag A, on the possible legislative timetable for student loans that Mr. Baker outlined in his minute at Flag B.

The Lord President's key point is that it would be unrealistic to think of the Student Loans Bill, if it was included in the 1989-90 programme, receiving Royal Assent by January 1990, as Mr. Baker suggested in his minute. Prudent planning suggests Royal Assent around Easter. The question then arises:

- does Royal Assent around Easter 1990 allow sufficient time for the introduction of the loan scheme in the autumn term 1990?

That timetable is clearly very tight. Mr. Baker's office say that some necessary pre-planning, for example the discussions with banks, could be carried out in advance of Royal Assent. Their first reaction therefore is not to rule out this timetable.

I suggest that I now write to Mr. Baker's Private Secretary in the following terms:

- you are ready for E(EP) to consider Mr. Baker's paper (on 19 July) provided that Mr. Baker can confirm that there would be sufficient time to bring a student loan scheme into operation, if one was agreed, for the autumn term 1990, even though the legislation would not have received Royal Assent until the Easter that year;

- you support the Lord President's view that Parliamentary Counsel should not be asked to divert attention from the very heavy programme of Bills that are going before Parliament in order to prepare, at the end of this year, the Student Loan Bill on a contingency basis.

There are both political and administrative risks in this course. Political because the Government would be seen to be committed publicly to a student loan scheme and there would be embarrassment if there was not sufficient legislative time to enact the Bill in time. Administrative because the planning inevitably would have to be rushed and administrative hitches might mar the introduction of the loan scheme.

But the route suggested above seems to be the only way forward if we are to bring into operation a student loan scheme this Parliament. Mr. Baker regards such a scheme as vital for the future plans for universities. Agree to proceed as I suggest above?

N. L. W.

Yes - Charles

N. L. WICKS

30 June 1988

PAMACN

CONFIDENTIAL

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PRIME MINISTER

STUDENT LOANS

with NLW

This minute contains my comments on the possible legislative timetables that Kenneth Baker outlined in his minute to you of 23 June.

I am grateful to Kenneth for accepting that it will not be possible to include a Student Loans Bill in The Queen's Speech for next session since that could only be done at the cost of jettisoning some other measure. If, by some chance, space should become available for the Bill during the progress of the session then we could naturally consider adding it as Kenneth suggests, though I am bound to say that the only way in which I can at present see this happening would be if one of our other main Bills unfortunately fell by the wayside.

Turning to the 1989-90 programme, it should certainly be possible to have this Bill ready for immediate introduction, and to put it on a very fast track as Kenneth proposes. I am afraid, however, that it would be unrealistic to think of the Bill being enacted by January, since it would clearly not be a money Bill and the Lords would be bound to want to debate it. For planning purposes, I think it would be sensible to reckon on a Bill of this kind getting Royal Assent around Easter. If that would allow sufficient lead time to bring the scheme into operation for the following autumn term, then Kenneth's scheme is technically feasible from the point of view of the Business Managers.

Finally, perhaps I should comment on Kenneth's passing suggestion that we might authorise drafting to start on the Bill at the end of this year, so that it would be ready to be moved in to occupy any space that appeared in the programme during the course of the 1988-89 session. As I have indicated, I do not think that this eventuality is very probable, and I think that it would be unwise to ask Parliamentary Counsel to divert attention from the very heavy programme of Bills that are going before Parliament in order to prepare a further one on a contingent basis.

I am sending copies of this minute to Kenneth Baker, David Waddington and Sir Robin Butler.

JW

30 June 1988

30. VI. 1988

CONFIDENTIAL

B GCBG

Prime Minister.
The ever ingenious Mr Baker. We now await the Lord President's views. He may say "OK, go ahead, but make sure you have a good story for public consumption if the Bill does not, in the event, go ahead." But let us see.

PRIME MINISTER

I spoke to John Wakeham and Robin Butler about student loans yesterday and it was agreed that I should write to you to set out a possible course of action.

The position is that I have now cleared with the other Education Ministers and the Treasury a scheme for top-up student loans. Peter Walker has reserved his position, but apart from that it is agreed. I still have to agree with John Moore the position of students who are not eligible for loans but draw social security benefits. We have had a constructive meeting this week and I hope to come up with a solution on that very soon.

N.L.W 23.6

I think it is most important that this proposal is put to E(EP) and the Cabinet as soon as possible. The reason for this is that there has been a great deal of speculation over the last two or three months about student loans and quite a lot of our proposal has leaked out in various dramatic stories, that the Treasury has won, that the Treasury has lost, that we are going ahead and that we are not going ahead. There is therefore a very lively expectation in the education world and indeed in the political world that we have got a scheme and that we are going to come up with it. I have managed to hold off pressures in the last three months by saying that we are still working upon the details but I can't go on doing this for much longer because the actual review was set up over two years ago.

I think it is therefore politically very important for us to announce that we are committed to introducing top-up loans for students from the autumn term 1990, and that we intend to take the necessary measures to implement it. If we don't do this I think that I, and you, will be asked exactly where we stand on student loans. Unless we can give a positive answer and say that it has been collectively agreed, we will create uncertainty, we will lose the initiative and will be put onto the defensive in an area which can be presented very positively as a major step forward. I talked in confidence to the Whips and to Jim Pawsey and there is no doubt that the scheme can be presented in a very attractive and positive way and we don't want to start by giving the impression that there is any hesitancy at all about our commitment in principle or our determination to get it established. If the trumpet gives an uncertain sound .....

I understand from John that it is not going to be possible to include a commitment to have a Student Loans Bill in the next

CONFIDENTIAL

session. Obviously I regret it, but if there are other measures of greater importance then I will have to accept that it should not be in the Queen's Speech.

I want to suggest, therefore, a way through which combines an early decision and an early announcement so that we may set in train the necessary measures to ensure that we do have top-up loans in autumn 1990. I suggest that E(EP) should take the paper in the week of 18 July; then Cabinet might consider the proposal on 21 July; and thereafter I should make a statement to the House announcing our commitment to a system of top-up loans and publish a White Paper. I hope to have a draft text of the White Paper for the E(EP) meeting, and to have it printed in time for the statement.

In my statement I would then say that we will take whatever steps are necessary to introduce top-up loans in 1990, and that legislation will be introduced when we have completed a process of consultation which will involve three groups. First, the financial institutions; secondly, the universities and polytechnics and the new Funding Councils because they will have to administer a bursary fund to help; and thirdly, the local authorities to whom we are proposing to give powers to make loans to students in certain circumstances.

This will launch a process of consultation. I think it will take up to Christmas, and probably well beyond. The details of the scheme and other arrangements will almost certainly not feature in our legislation which will be of an enabling nature. I hope however we will have permission to start drafting the Bill towards the end of the year so that we have it in reserve, in case there is the possibility of adding it to the programme in the Spring. I would hope that by that time many people would be clamouring for it. If by any chance it is not possible to have the Bill at all next session the preparatory work that we have done on the Bill, together with the detailed consultations on the actual scheme with the three groups that I have mentioned, will enable us to act very quickly in the autumn of 1989. It could be the very first Bill in the next session and I would have to ask colleagues to accelerate its progress through so that it could be on the Statute Book by January 1990. If that is the case I think it would be possible for us still to implement our commitment to getting top-up loans in by autumn 1990.

I appreciate that this is a tight programme, but quite frankly if we cannot get loans in autumn 1990 we should abandon the whole idea of loans and what we said in our Manifesto. I would strongly oppose that. I am very committed to loans. I think it is a major step forward in ending the dependency culture amongst a vital group in our society - all those who are going into higher education. It will also pave the way to other deeper and

longer term changes in the whole financing of higher education. What I have tried to do in this minute is to set out what I consider to be a way in which we can reconcile our commitment to this very important policy and at the same time deal with the difficult question of how it can be slotted into our legislative programme.

I am copying this minute only to John Wakeham, David Waddington and Sir Robin Butler.

K.B.

KB
Department of Education and Science 23 June 1988



SECRET 7A-E

NLW on

cc - Mr. Wicks
Mr. Langdon

CABINET OFFICE

70 Whitehall London SW1A 2AS
01-270 0101

AB 23/6. to see ep

From the Secretary of the Cabinet and Head of the Home Civil Service
Sir Robin Butler KCB CVO

Ref. A088/1862

LORD PRESIDENT

Meeting with the Secretary of State for Education and Science on Student Loans Legislation

Purpose of Meeting

The purpose of this meeting is to inform the Secretary of State for Education and Science of the Prime Minister's decision that there is no room for a Student Support Bill in next Session's legislative programme, and to invite him to come forward with proposals for handling this topic in a way that does not conflict with that decision.

2. A similar meeting will be required with the Chancellor of the Exchequer, and this brief will serve for both meetings.

Background

3. Soon after Mr Baker became the Secretary of State for Education and Science he put in hand a review of student support under Mr George Walden. The review was concluded, under Mr Robert Jackson, this year, and Mr Baker has spent the last few months adjusting his proposals in consultation with the regional Ministers and with Treasury Ministers. His final proposals

FRBAHN

involve freezing grants at their present level, ending students' access to housing benefit, capping parental contributions, and introducing loans as a top-up facility that will assume steadily increasing importance over the years. Although this model has additional public expenditure implications at the outset, the Chancellor of the Exchequer has supported the Secretary of State for Education and Science throughout the exercise.

4. When next Session's legislative programme was being constructed at the beginning of this year, Mr Baker argued both to QL and to Cabinet that the 1988-89 Session was the only politically feasible window for legislating on this topic during the present Parliament. He believes that the package he has constructed will prove attractive in practice, but he recognises that the political track record of the subject is unhelpful and he believes that the Government should avoid going into a General Election with the legislation on the statute book, but with the first year's experience on the ground still to take place. QL felt, however, that it would be wrong to put this Bill in the programme at the expense of other important measures that already had policy approval, and that was endorsed by Cabinet when they provisionally approved next Session's programme at the meeting on 10 March (CC(88) 9. 5). Cabinet decided that "the Student Bill should, subject to policy approval, be recognised as having first claim for addition to the programme, but that its inclusion would require offsetting reductions".

5. At the end of May Mr Baker explained his latest proposals to the Prime Minister, and made it clear that he was at last in a position to put his scheme to E(EP). He believed that only a very short Bill might be required to implement his proposals, and the Prime Minister asked him to discuss the leglislative implications with you. Your meeting with him took place on 25 May, when he argued that a Bill of 5-15 clauses would be necessary.

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6. In the meantime, the Prime Minister has decided that the Broadcasting Bill approved by Cabinet should be dropped from next Session's programme and amalgamated with the Bill in the following Session, and that the Election (NI) Bill should be expanded to include anti-terrorist declarations, as Cabinet favoured. The place of the Broadcasting Bill is now to be taken by the Security Service Bill, of which Mr Baker is unaware and must remain unaware for the time being. (The Chancellor however, does know of this addition.) When Mr Baker finally learns of the inclusion of the Security Service Bill there is a risk that he could argue that its insertion is not in line with the Cabinet decision that the Student Support Bill had first claim for addition to the programme. The answer to that must be partly that the Security Service Bill is simply one aspect of the whole nexus of official secrets legislation, and partly that circumstances obviously change throughout the year.

7. At her meeting on 13 June with you and the other Business Managers, the Prime Minister agreed that the programme was too big to accomodate a Student Support Bill, and that Mr Baker should therefore not bring the policy forward for discussion in E(EP). At some point it will be necessary for QL and Cabinet to ratify all the decisions mentioned above.

Main Issues and Points to Make

8. You may wish to open the meeting by reminding Mr Baker that you last discussed this issue with him on 25 May. You have now reported the outcome of that meeting to the Prime Minister, and want to discuss the next steps with him in the light of the Prime Minister's decision.

9. Although you accept Mr Baker's assessment that the legislation necessary to implement his Student Support proposals would not be very long, you believe that it would be very

FRBAHN

controversial and time consuming in both Houses. You have discussed this with the other Business Managers and with the Prime Minister, who are all agreed on that point.

10. This means that a Student Support Bill must be seen as a major addition to the programme, for which offsetting reductions would have to be found in the way that Cabinet enjoined.

11. A very major factor in the situation is now the increasing size and complexity of the leglisation that will be needed to deal with official secrets and related matters and it is now clear that the amount and complexity of legislation which will have to be presented to Parliament next Session will be greater than had been anticipated. It will almost certainly also need to be taken through all its stages in the House of Commons on the floor of the House.

12. To allow for that, the Home Secretary has reluctantly agreed to drop his Broadcasting Bill from next Session. But that does not mean that there is any spare capacity whatsoever. The increased complexity of the legislation on official secrets and related matters, the anti-terrorist declaration for Northern Ireland elections, will more than take-up all the time earmarked for broadcasting.

13. You therefore explored all the options for finding room for a Student Support Bill, but were left with absolutely no alternative but the possible deletion of the Children and Family Services Bill. That measure, however, is not only needed to deal with the Cleveland Inquiry report (to be published next month) but is a necessary balancing item in the programme, ideally suited for starting in the Lords, and addresses an area of social policy on which there are long-standing public expectations. The Prime Minister is absolutely clear that the Children etc Bill cannot be postponed.

FRBAHN

14. The Prime Minister realises that the review of Student Support under Mr Jackson is public knowledge, and she appreciates Mr Baker's argument that the 1988-89 Session is the only politically sensible one for legislation on the topic in this Parliament. She is, however, very troubled by the weight of the provisionally approved programme for the next Session, which includes huge Bills on water and electricity privatisation, and she fears that the whole programme will be jeopardised by any further significant additions. She has therefore decided that there is no way in which a Student Support Bill can be accommodated in the programme.

15. You therefore seek Mr Baker's help in devising a way through this situation, given that the legislation route is now barred. You know that the Prime Minister is anxious that the matter should not be handled in any way that could be misrepresented as a defeat for anyone involved and you understand that, with that in mind, she may be reluctant to preside over any formal discussions of the policy when it is clear that early legislation is impracticable. While Mr Baker would obviously be within his rights in asking to see the Prime Minister about the decision on legislation, you very much hope that he will accept it as being inevitable, and that he will be able to help the Prime Minister by suggesting some alternative way forward.

F.E.R.B.

20 June 1988



File. 6 A-H.

ORIGINAL RETURNED TO T. WOOLLEY

Mr Woolley,
Some changes, of which these to §s 6, 11 and 12 are the most important.
Legislation on football hooliganism may be necessary, but no need to tell Mr Baker this.
N.L.W
16.6

Ref. AO88/1850

MR WICKS

Student Loans Legislation

I understand that you agreed with Sir Robin Butler that you should see the brief for the Lord President's meeting with the Secretary of State for Education and Science on Student Loan Legislation before it was submitted.

--- 2. I attach the draft which Sir Robin proposes to send. Perhaps you could let me know if you are content for it to go forward or if you have any comments.

Trevor Woolley

T A WOOLLEY

16 JUNE 1988

DRAFT MINUTE FROM FERB TO LORD PRESIDENT OF THE COUNCIL

Meeting with the Secretary of State for Education and Science on Student Loans Legislation

Purpose of Meeting

The purpose of this meeting is to inform the Secretary of State for Education and Science of the Prime Minister's decision that there is no room for a Student Support Bill in next Session's legislative programme, and to invite him to come forward with proposals for handling this topic in a way that does not conflict with that decision.

which do not involve legislation

2. A similar meeting will be required with the Chancellor of the Exchequer, and this brief will serve for both meetings.

Background

3. Soon after Mr Baker became the Secretary of State for Education and Science he put in hand a review of student support under Mr George Walden. The review was concluded, under Mr Robert Jackson,

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this year, and Mr Baker has spent the last few months adjusting his proposals in consultation with the regional Ministers and with Treasury Ministers. His final proposals involve freezing grants at their present level, ending students' access to housing benefit, capping parental contributions, and introducing loans as a top-up facility that will assume steadily increasing importance over the years. Although this model has additional public expenditure implications at the outset, the Chancellor of the Exchequer has supported the Secretary of State for Education and Science throughout the exercise.

4. When next Session's legislative programme was being constructed at the beginning of this year, Mr Baker argued both to QL and to Cabinet that the 1988-89 Session was the only politically feasible window for legislating on this topic during the present Parliament. He believes that the package he has constructed will prove attractive in practice, but he recognises that the political track record of the subject is unhelpful and he believes that the Government should avoid going into a General Election with the legislation on the statute book, but with the first year's experience

on the ground still to take place. QL felt, however, that it would be wrong to put this Bill in the programme at the expense of other important measures that already had policy approval, and that was endorsed by Cabinet when they provisionally approved next Session's programme at the meeting on 10 March (CC(88) 9. 5). Cabinet decided that "the Student Bill should, subject to policy approval, be recognised as having first claim for addition to the programme, but that its inclusion would require offsetting reductions".

5. At the end of May Mr Baker explained his latest proposals to the Prime Minister, and made it clear that he was at last in a position to put his scheme to E(EP). He believed that only a very short Bill might be required to implement his proposals, and the Prime Minister asked him to discuss the leglislative implications with you. Your meeting with him took place on 25 May, when he argued that a Bill of 5-15 clauses would be necessary.

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FRBAHL

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programme and amalgamated with the Bill in the following Session, and that the Election (NI) Bill should be expanded to include anti-terrorist declarations, as Cabinet favoured. The place of the Broadcasting Bill is now to be taken by the Security Service Bill, of which Mr Baker is unaware. (The Chancellor however, does know of this addition.) When Mr Baker finally learns of the inclusion of the Security Service Bill there is a risk that he could argue that its insertion is not in line with the Cabinet decision that the Student Support Bill had first claim for addition to the programme. The answer to that must be partly that the Security Service Bill is simply one aspect of the whole nexus of official secrets legislation, and partly that circumstances obviously change throughout the year.

and must remain unaware for the time being.

7. At her meeting on 13 June with you and the other Business Managers, the Prime Minister agreed that the programme was too big to accomodate a Student Support Bill, and that Mr Baker should therefore not bring the policy forward for discussion in E(EP). At some point it will be necessary for QL and Cabinet to ratify all the decisions mentioned above.

Main Issues and Points to Make

8. You may wish to open the meeting by reminding Mr Baker that you last discussed this issue with him on 25 May. You have now reported the outcome of that meeting to the Prime Minister, and want to discuss the next steps with him in the light of the Prime Minister's decision.

9. Although you accept Mr Baker's assessment that the legislation necessary to implement his Student Support proposals would not be very long, you believe that it would be very controversial and time consuming in both Houses. You have discussed this with the other Business Managers and with the Prime Minister, who are all agreed on that point.

10. This means that a Student Support Bill must be seen as a major addition to the programme, for which offsetting reductions would have to be found in the way that Cabinet enjoined.

11. A very major factor in the situation is now the increasing size and complexity of the leglisation that will be needed to deal with official secrets ~~and security issues.~~ New

f

dimensions have become apparent in this, including some problems which seem likely to arise from cases before the European Convention on Human Rights, and it is now clear that the amount and complexity of legislation presented to Parliament next Session will be greater than had been anticipated. It will almost certainly also need to be taken through all its stages in the House of Commons on the floor of the House.

12. To allow for that, the Home Secretary has reluctantly agreed to drop his Broadcasting Bill from next Session. But that does not mean that there is any spare capacity whatsoever. The legislation on security issues, and the anti-terrorist declaration for Northern Ireland elections, will more than take-up all the time earmarked for broadcasting.

13. You therefore explored all the options for finding room for a Student Support Bill, but were left with absolutely no alternative but the possible deletion of the Children and Family Services Bill. That measure, however, is not only needed to deal with the Cleveland Inquiry report (to be published next month) but is a necessary

balancing item in the programme, ideally suited for starting in the Lords, and addresses an area of social policy on which there are long-standing public expectations. The Prime Minister is absolutely clear that the Children etc Bill cannot be postponed.

14. The Prime Minister realises that the review of Student Support under Mr Jackson is public knowledge, and she appreciates Mr Baker's argument that the 1988-89 Session is the only politically sensible one for legislation on the topic in this Parliament. She is, however, very troubled by the weight of the provisionally approved programme for the next Session, which includes huge Bills on water and electricity privatisation, and she fears that the whole programme will be jeopardised by any further significant additions. She has therefore decided that there is no way in which a Student Support Bill can be accommodated in the programme.

15. You therefore seek Mr Baker's help in devising a way through this situation, given that the legislation route is now barred. You know that the Prime Minister is anxious that the matter should not be handled in any way that could be

misrepresented as a defeat for anyone involved and you understand that, with that in mind, she may be reluctant to preside over any formal discussions of the policy when it is clear that early legislation is impracticable. While Mr Baker would obviously be within his rights in asking to see the Prime Minister about the decision on legislation, you very much hope that he will accept it as being inevitable, and that he will be able to help the Prime Minister by suggesting some alternative way forward which does not involve legislation.



10 DOWNING STREET

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CONFIDENTIAL

SUBJECT cc MASTER

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

14 June 1988

Dear Alison,

STUDENT LOANS

The Prime Minister held a meeting yesterday afternoon to discuss the Lord President's minute of 27 May about the consequences of the Secretary of State for Education's student loan proposals for the legislative programme. The Lord President, the Lord Privy Seal, the Chief Whip, Sir Robin Butler and Mr. A. J. Langdon (Cabinet Office) were present.

I should be grateful if you and copy recipients would ensure that this record of the discussion is shown only to those with an operational need to see it.

Following discussion of the contents of the legislative programme for the next session, as it stood after the decisions taken at the Prime Minister's meeting with the Lord President and the Home Secretary on 16 May, the Prime Minister said that the meeting agreed that the programme remained extremely heavy. There could be no question of adding a Student Support Bill to the programme without making a compensating reduction, and the Children and Family Services Bill was now the only feasible candidate for postponement. Since it would not be acceptable to delay that important Bill, the Student Support Bill could not be accommodated in the programme. That being so, it would serve no useful purpose, and would open the door for various difficulties, if the policy on student support were brought forward for consideration in E(EP). The impossibility of accommodating a Student Support Bill in next session's programme should therefore be explained to the Education Secretary and also to the Chancellor of the Exchequer. At some point it would be necessary for Cabinet to be informed of this decision, and also to ratify the decisions on deletions from and additions to the programme taken at the meeting on 16 May.

The Prime Minister strongly endorsed the Lord President's comment that the success of next session's programme would largely depend on all the main measures being ready for early introduction, so that they achieve their Second Readings before Christmas. She expressed the trust that everything necessary was being done to ensure that these targets are being met.

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The meeting discussed the possibility of bringing forward the State Opening for next session to an earlier time than the week beginning 21 November, but concluded that this would be impracticable. The Prime Minister expressed the hope, however, that it would at least be possible for the State Opening to take place on 22 November rather than 23 November. I am in touch with you separately about that.

I am sending copies of this minute to Nick Gibbons (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), Sir Robin Butler and Anthony Langdon (Cabinet Office).

Nigel Wicks

N. L. WICKS

Ms. Alison Smith,
Lord President's Office

covering confidential

K01965

MR WICKS

STUDENT LOANS

I attach the draft of a note for you to send to Alison Smith as a record of the Prime Minister's meeting yesterday afternoon.

A/L

A J LANGDON

14 June 1988

(letter)

DRAFT MINUTE TO MS ALISON SMITH, LORD PRESIDENT'S OFFICE

5/3bbx

STUDENT LOANS

The Prime Minister held a meeting yesterday afternoon to discuss the Lord President's minute of 27 May about the consequences of the Secretary of State for Education's student loan proposals for the legislative programme. The Lord President, the Lord Privy Seal, the Chief Whip, Sir Robin Butler and Mr A J Langdon (Cabinet Office) were present. I should be grateful if you and copy recipients would ensure that this record of the discussion is shown only to those with an operational need to see it.

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policy on student support were brought forward for consideration in E(EP). The impossibility of accommodating a Student Support Bill in next session's programme should therefore be explained to the Education Secretary and also to the Chancellor of the Exchequer. At some point it would be necessary for Cabinet to be informed of this decision, and also to ratify the decisions on deletions from and additions to the programme taken at the meeting on 16 May.

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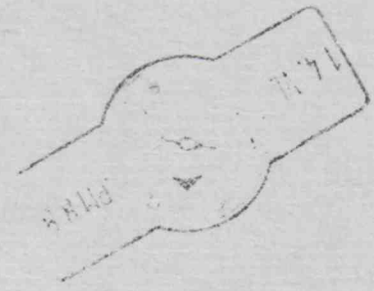
LPS

I am sending copies of this minute to Nick Gibbons, Murdo MacLean, Sir Robin Butler and Anthony Langdon.



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PRIME MINISTER

LEGISLATIVE PROGRAMME AND STUDENT LOANS LEGISLATION

You are meeting the Lord President, the Lord Privy Seal and the Chief Whip to discuss the possibility of accommodating student loans legislation in next session's legislative programme. The meeting will proceed on the basis of the Lord President's minute immediately below.

Two background points:

1. Mr. Baker has a paper ready to circulate to E(EP) seeking approval for a student loans scheme. You indicated to him that subject to the resolution of particular points, and to finding legislative time, you were generally content with his approach. I believe that subject to the resolution of details E(EP) would endorse his approach.

His paper has not been circulated to E(EP) pending decision on whether space can be found in next session's legislative programme for a Student Loans Bill. Indeed, if space cannot be found, there is a strong case for not circulating the paper, but for postponing consideration of the proposal. This could well mean postponing the introduction of legislation until the next Parliament. This is because if there is not legislation next session, the scheme would have to be introduced near an election.

2. Ministers have, subject to the approval of Cabinet, already agreed that next session's Broadcasting Bill should be dropped and amalgamated with the bill that would be needed in the following session. The room created by dropping the Broadcasting Bill should be used for both the Security Service legislation (about which the business managers have now been informed on a highly confidential basis) and the expansion of the Elections (Northern Ireland) Bill. Business managers have concluded that both the Security Services Bill and most if not

B

all, of the Official Secrets Bill will need to be taken on the floor of the House.

There are various options for accommodating the Student Loans Bill into next session's programme.

1. Squeeze in the measure, without dropping anything else, and hope that the programme will stand it. The Lord Presdient is, rightly, against this course.

2. Adopt the two options identified on the second page of his minute below, involving limiting the Companies Bill or deleting the Road Traffic Bill and the Transport (Scotland) Bill. The Ministers concerned would strongly oppose either option, and the Lord President doubts whether either option could be achieved satisfactorily in practice.

3 ~~4~~. Drop the Children and Family Services Bill. The business managers will argue, with some justification, that this would unbalance the programme which needs a "social/caring" element.

Unless the meeting can discern another route, it seems that the conclusion will be that the Student Loans Bill cannot be accommodated in next session's programme and, probably and regrettably, will have to be postponed until the next Parliament.

If that is the conclusion, you will need to consider how this news should be communicated to Mr. Baker in a way which does not inform him of the Security Services legislation. The Lord President is presumably the man to carry the news, though Mr. Baker may well want to appeal to you.

N.L.W.

NLW

10 June, 1988.

Sara,
Tel you
N ~~Nigel~~,
We have these papers in a meeting folder for you.
Sara 9/6.

SECRET AND PERSONAL

CC BOP
4

PRIVY COUNCIL OFFICE
WHITEHALL LONDON SW1A 2AT

9 June 1988

Dear Murdo,

MEETINGS ON THE LEGISLATIVE PROGRAMME FOR 1988/89

Following discussion with Nigel Wicks, I attach for your own use and that of your Minister, a copy of relevant papers as background to the meetings tomorrow and on Monday about next Session's legislative programme. These are as follows:

(a) Letter to me from Nigel Wicks headed 'Legislative Programme 1988/89', dated 17 May - classified Secret with a request to restrict sight of the letter to named individuals only.

(b) Letter to Tom Jeffery from Nigel Wicks headed 'Student Loans', dated 17 May - classified Confidential and with a request that the circulation be restricted on a need-to-know basis to named officials only.

(c) A minute to the Prime Minister from the Lord President headed 'Student Loans', dated 27 May - classified Secret.

(d) A letter to me from Nigel Wicks headed 'Student Loans', dated 1 June - classified Confidential.

I am copying this letter and the attachments to Nick Gibbons (Lord Privy Seal's office) and, without the attachments, to Nigel Wicks.

Yours,

Alison

ALISON SMITH
Private Secretary

Murdo Maclean Esq
PS/Government Chief Whip
12 Downing Street

CONFIDENTIAL

Giles Hayek

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

1 June 1988

Dear Alison,

STUDENT LOANS

The Prime Minister would like to discuss the Lord President's minute of 27 May about the consequences of the Secretary of State for Education's student loan proposals for the legislative programme with the Lord President, the Lord Privy Seal and the Chief Whip. Our office will be in touch with yours to arrange an early discussion.

The Prime Minister agrees that the Lord Privy Seal and the Chief Whip should be told about the particular Bill, referred to in the first line of the fourth paragraph of the Lord President's minute. The Prime Minister wishes knowledge of this Bill to be confined to the Lord Privy Seal and the Chief Whip personally and to their Principal Private Secretaries only.

I am sending a copy of this letter to Sir Robin Butler.

Yours ever,

Nigel Wicks

(N. L. WICKS)

Ms. Alison Smith,
Lord President's Office.

CONFIDENTIAL

L

RESTRICTED

File KK

10 DOWNING STREET

From the Principal Private Secretary

27 May 1988

This is just to record my conversation with you in which I asked that the Lord President's minute to the Prime Minister on student loans should be classified "Secret".

I am sending a copy of this minute to Trevor Woolley (Cabinet Office).

(N. W. WICKS)

Ms. Alison Smith,
Lord President's Office.

RESTRICTED

COVERING SECRET 1



NLW

10 DOWNING STREET

PRIME MINISTER

The Lord President's minute below.

There seems to be a straight choice between the inclusion into the next session's legislative programme of a Student Support Bill and the exclusion of the Children and Family Services Bill.

I suggest that the next step is to discuss the options with business managers. A proper discussion requires the Lord Privy Seal and the Chief Whip to be told about the Security Service Bill, which they will need to know about before long in any event.

Agree a discussion with the Business Managers and that the Lord Privy Seal and the Chief Whip should be told about the Security Service Bill?

N.L.W.

NLW

27 May 1988

Yes NL

SECRET

CONFIDENTIAL
upgraded 27/5/88

3
A-C

PRIME MINISTER

STUDENT LOANS

You asked Kenneth Baker to discuss the consequences of his Student Loans proposals for the legislative programme with me before he circulated any paper to E(EP). This minute is to report my views following a meeting I had with Kenneth on Wednesday.

In terms of length, a Student Support Bill would not be very great. It seems likely that it would be in the 5 - 15 clause bracket. But there would be plenty of scope for amendments and the difficulty is in estimating the controversiality and political demands. Kenneth is optimistic about that, and I hope he is right. But all past experience leads one to be cautious on this subject, and I do not think that we should assume an easy ride for it in either House.

As you know the Cabinet endorsed the proposition that the provisional programme is so heavy that offsetting savings would have to be found for any significant additions that might be made to it. Notwithstanding this, I have considered again whether it might be possible just to add the Student Support Bill to the programme, without making a compensating reduction. I have concluded that while this might seem feasible at the beginning of the Session, it is a course so fraught with the risk of our being forced later on to abandon some of our programme - perhaps this or perhaps another Bill - that we should not admit Student Support on that basis.,

In considering the possible savings, I think we should also bear in mind that a Security Service Bill, if that goes ahead, plus the expansion of the Elections (NI) Bill would probably outweigh the loss of the Broadcasting Bill. So in order to accommodate a Student Support Bill, we ought ideally be looking to jettison something rather heavier.

In the Cabinet Office note that was before your meeting with the Home Secretary and myself on 16 May it was concluded that the Children and Family Services Bill and the Broadcasting Bill were the only measures of any weight that were available to be discarded from the programme. I still think that this analysis was substantially correct,

CONFIDENTIAL SECRET

but I do fully agree with your view that the postponement of the Children and Family Services Bill would be most regrettable for a number of reasons. I have, therefore, once again reviewed the programme to see if there is any other way of accommodating a Student Support Bill.

I am sure that cutting out some of the very small Bills would not be of any practical help. I also think that we would be most unlikely to get anywhere by trying to build up a package by paring some of the less important provisions out of several measures. The rejected parts would only creep back in again through one route or another, and relations would be strained with very many colleagues. If we are to accommodate a Student Support Bill, then we have to find sizeable and genuine items to reject.

There seem to me only two options which would be even technically possible, and either would be extremely unwelcome to the sponsoring Ministers and, I believe, to Treasury Ministers. I have included them for completeness only, as I believe either would offer a prospect even more unattractive than the choice between the Children and Family Services Bill and the Student Support Bill with which we are otherwise faced. Option 1 would consist of limiting the Companies Bill (which currently stands at about 160 clauses) to the 45 - 55 clauses that are essential to meet EC requirements. David Young would, however, be able to point to very good arguments for most of his proposals - especially those on financial markets and on mergers - and his bid has already been savagely pruned by QL and Cabinet. It must be very questionable whether such a considerable further reduction would actually stick. Option 2 would consist of the deletion of the Road Traffic Bill and the Transport (Scotland) Bill. The first of these measures is properly classified "essential" in order to bring us into line with the Community Driving Licence Directive, of which we have admitted being in breach. Nevertheless, and subject in due course to Geoffrey Howe's comments, we might just about be able to get away with failing to legislate next Session. The Bill is not very weighty, however, and we would have to find something else as well. I can see only Transport (Scotland) which is a privatisation measure to which Malcolm Rifkind is deeply committed, as his Statement earlier this week made clear.

Includes privatisation of Scottish Buses

As I have indicated, my judgement is that although in theory each of these options is possible, I doubt very much whether either could be achieved satisfactorily in practice. The choice before us thus remains essentially between Student Support and Children and Family Services.

Finally, I should like to mention that any assessment of what the programme can bear is based on one's feeling for the general nature and political flavour of the programme, as well as on more objective information about the size and complexity of Bills. The other Business Managers, especially in the House of Lords, might possibly have different views from mine on some of these assumptions, and I should very much like the benefit of their advice, even though it is not possible to bring the whole of QL into consultation. However, I should need to put them in the picture as to what was envisaged on ~~Student~~ Security Service ~~Support~~ legislation for them to give properly informed advice and I would like your permission to consult them if you think that desirable.

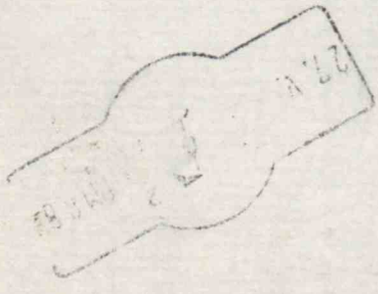
I am sending a copy of this minute to Sir Robin Butler.

Alison Smith

pp JW

(approved by the Lord President and signed in his absence).

27 May 1988



10 DOWNING STREET

CONFIDENTIAL

RESTRICTED DISTRIBUTION REQUIRED

SEE INSTRUCTIONS IN LETTER

CONFIDENTIAL

VC3AYX

SUBJECT file
cc MASTER.

bc.
BG

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

17 May 1988

Dear Tom,

STUDENT LOANS

The Prime Minister and your Secretary of State today discussed your Secretary of State's proposals for a student loan scheme. Professor Griffiths of the No. 10 Policy Unit was also present. I should be grateful if you, and the other recipients of this letter, would restrict the circulation on a strict need to know basis to named officials only.

Your Secretary of State described to the Prime Minister the main elements of the scheme which he had negotiated with the other Education Ministers and the Treasury. The Prime Minister did not dissent from the broad principles of the arrangements of the scheme described by your Secretary of State but was somewhat cautious about its introduction in the autumn of 1990. Your Secretary of State replied that any presentational difficulties might be minimised by providing that the loan scheme, and the associated social security changes, applied only to new students with existing students continuing to receive student grants in the normal way. The Prime Minister emphasised that she would like to see the banks meeting some of the risks of the loans. If the loans were totally guaranteed by the Treasury, the banks would have no incentive to lend wisely or to secure repayment. Your Secretary of State undertook to consider this aspect with the Treasury.

Your Secretary of State expressed himself unsure about the requirements for legislation. Some of the changes required, for example those to withdraw social security benefits, could be implemented by regulation and it was just possible that either the Treasury or himself already possessed powers to implement a loan scheme. He would investigate further. The Prime Minister pointed out that the legislative programme was already full and a student loan bill could only be accommodated by omitting an item already in the programme. The Broadcasting Bill was likely to be deferred until the 1989-90 session for other reasons. The Prime Minister asked that your Secretary of State should consider the consequences for the legislative programme with the Lord President before circulating any paper to E(EP).

CONFIDENTIAL

I am sending a copy of this letter to Alison Smith in the Lord President's Office and to Sir Robin Butler.

Yours ever,

Nigel Wicks

N.L. WICKS

T.B. Jeffery, Esq.,
Department of Education and Science.

SECRET

PRIME MINISTER

16 May 1988

Student Support

Mr Baker is due to see you tomorrow to discuss his proposals for student support.

The proposal is to freeze student grants from 1990 and increase student funding via loans until the ratio of grant to loan is 50:50, after which grants and loans would increase together. At the same time students would no longer have access to social security.

The advantage of the proposal is that it introduces loans: the disadvantage that it takes such a long time. Because of this however opposition to it should be muted.

There is still one point which needs to be further examined. DES claim that between 30-40,000 students will be worse off under these proposals largely because of the size of the housing benefits they now receive. It is important that in 1990-91 when the new measures are introduced that we do not have a few thousand students with nowhere to live. Apart from anything else this could be used in a damaging way against the government.

Recommendation

Agree to the proposals subject to the Secretary of State looking into the housing implications.

Brian Griffiths

BRIAN GRIFFITHS

10 DOWNING STREET

PRIME MINISTER

STUDENT LOANS

The attached note alerts you to that N. Baker is likely to tell you on Tuesday. But it is also relevant to your meeting on the legislative programme on Monday.

BRCC

13/5

1

PRIME MINISTER

STUDENT SUPPORT

Mr Baker is seeing you on Tuesday 17 May to discuss the proposals on student support which he agreed with the Chief Secretary yesterday. These proposals are described in Annex A.

2. Mr Baker's proposals would involve freezing the student grant in cash terms in Autumn 1990, and providing a top-up loan of up to £420 a year in addition. In future years the loan element would be uprated, but there would be no increase in the grant. Access to social security benefits would be withdrawn when loans were introduced. Currently students who claim benefits receive an average of around £280 a year in housing benefit and income support. DES estimate that of 450,000 students receiving mandatory or full discretionary awards, 30-40,000 would be worse off in cash terms when loans were introduced. These would principally be students living in relatively expensive accommodation, and therefore receiving higher levels of housing benefit.

3. Treasury Ministers had originally proposed that, in exchange for a reduction of grant of about 25%, loans of around £1000 a year should be available. The regional Secretaries of State, Mr Walker and Mr Rifkind in particular, were concerned about the political implications of a cut in the cash grant. They therefore persuaded Mr Baker to put forward a scheme to the Chief Secretary along the lines now proposed. What is not clear is whether they hoped that it would be unacceptable to the Treasury, and would put an end to this particular initiative. We understand that during the discussions Mr Walker expressed scepticism about the principle of loans. Following yesterday's meeting with the Chief Secretary, Mr Baker is checking that Mr Walker, Mr Rifkind and Mr King are now content with what is proposed. He can report on these consultations on Tuesday.

4. We understand that Mr Baker is strongly committed to the present proposals. Over time they would reduce the dependence of students on state handouts, and increase the commitment of students to their studies by making them share in the cost of supporting themselves. On introduction, the proposals would increase the level of support available to the vast majority of students. The removal of students from the social security system would also be a bonus. Finally, the proposals would fulfil a manifesto commitment.

5. Although Treasury Ministers would have wished a less cautious transitional arrangement, they strongly support the principle of loans, and therefore decided to agree to there being no reduction in the cash grant. They recognised that, if agreement was not reached now, it was unlikely that any loan scheme would be introduced before the next election, and the Government's manifesto commitment would not be fulfilled.

6. Mr Baker will probably wish to put his proposals to an early meeting of E(EP), in the week before the Whitsun recess although, given the pressures, a meeting may not be possible until early June. You may wish to seek the endorsement of Cabinet after that. We understand that Mr Baker would like to make an announcement, and publish a White Paper, around the end of June. You will wish to consider the implications for the legislative programme of a Bill on student support in the next session at your meeting at 11am on Monday.

RTJW.

R T J WILSON

Cabinet Office
13 May 1988

ANNEX A

PROPOSALS FOR STUDENT SUPPORT

Level of Grants and Loans

From the academic year starting in Autumn 1990, the level of student grants would not be increased, but top-up loans would be made available. The loans in the first two academic years (1990-91 and 1991-92) would be worth £420 for students in the first and second year of their courses, and £310 for students in their final year. The latter figure is lower because student support is deemed to cease at the date of graduation, whereas support in the first two years has to cover a full 12 month period from October to the following September.

Future Increases

Mr Baker would make clear that the grant element of support was not to be increased after 1990. He has agreed, at the Chief Secretary's request, to leave open the possibility of a cash reduction in the grant at some future time, although the expectation at least for the first few years would be that the grant would remain constant in cash terms. Any uprating would apply solely to the loan element which, depending on the rate of inflation, would equal the grant element after around 15 years. Thereafter grants and loans would be uprated equally.

Parental Contribution

The parental contribution would apply only to the grant element. The scales for determining the level of parental contribution would be uprated each year in line with the earnings index. If a parent's income increased in line with average earnings, the parental contribution would remain the same in cash terms for the first 15 years or so during which the level of grant remained constant. Thus the average parental contribution would gradually reduce in real terms over this period.

Repayments

The repayment period would initially be the five years after graduation, but thereafter it would be increased in stages up to 10 years, as the proportion of support provided by loans moved up to 50%. Interest would only be charged on loans to the extent that the amount outstanding for repayment was uprated each year by the RPI. Special arrangements would be made to allow graduates who were unemployed, or otherwise unable to repay, to extend the period of their loans. It would be most cost-effective for the scheme to be financed by the Exchequer, but it would probably be administered by banks and building societies on the Government's behalf. In order to preserve the Government's negotiating position with the banks and building societies, the possibility of the scheme being administered by universities or local authorities would be kept open initially.

Social Security

At present students can claim housing benefit throughout the year and income support in the summer vacation. The majority of students now claim at some point in the year. Students entitled to mandatory or full discretionary awards would not be able to claim either benefit when loans became available. Students receiving discretionary awards worth less than around 60% of the mandatory amount would still be able to claim.

Public Expenditure Implications

The scheme would add around £100 million in a full year to public expenditure when introduced in 1990. The Treasury have accepted that this would be found from the Reserve. This cost would steadily reduce, and from around 1997 the scheme should cost less than a continuation of the present system of grants. After 35 years, it has been estimated that public expenditure savings of around £240 million a year should be realised (at 1990 prices).



CC BG.

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

FROM THE PARLIAMENTARY UNDER-SECRETARY OF STATE

NBPM
RACG
10/5

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

6 May 1988

Dear Michael

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

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

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

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

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

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

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

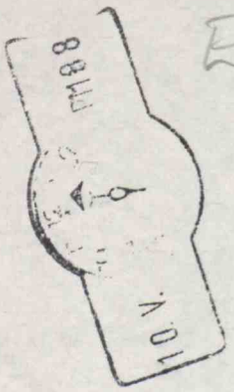
7. I acknowledge the other point that you make: that the special rules for categories such as lone parents and disabled students will need to be considered. These students, of whom there are fewer than 2000, are entitled to social security benefit throughout the calendar year, since they are unavailable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

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

Yours ever

Robert

ROBERT JACKSON



Educater - Student board
PR2

AR1432p

NBRM
RECB 22/4

CC TSG

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Parliamentary Under Secretary of State for Social Security

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

21. April 1988

Dear Robert

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

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

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

E.R.

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

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

Yours ever

Michael.

MICHAEL PORTILLO


21.IV.

C(85)

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

George Walden Esq MP
Parliamentary Under Secretary of State
Department of Education and Science
Elizabeth House
York Road
London SE1

7 April 1987

NBPM.

Dear George.

Thank you for your letter of 4 March. I am glad we are in agreement both on the dangers of inviting comparisons between levels of student maintenance grants and of supplementary benefit for the young unemployed, and on the undesirability of instituting a student price index.

I also agree with you that there is no advantage in entering into public debate about whether students are, or should be, better off than the young unemployed. It is right to reaffirm the long-standing and in my view well justified position, that there can be no valid comparison, and refuse to endorse the validity of any breakdowns which could be used against us.

I am copying this letter to the Prime Minister, Members of H Committee and Sir Robert Armstrong.

Yours ever

Nick.

NICHOLAS LYELL

EDUCATION: Student loans
: Pt 2.



CCBG

010

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

TELEPHONE 01-934 9000

FROM THE PARLIAMENTARY UNDER-SECRETARY OF STATE

Nicholas Lyell Esq MP
Parliamentary Under Secretary of State
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
London SE1 6BY

NRBM

4 March 1987

requested 5/3

yes please.

attached

will request if req'd.

Dear Nicholas,

Thank you for your letter of 11 February to Kenneth Baker.

I agree entirely with what you say about the presentational dangers in comparing the maintenance element of the student grant with what unemployed young people receive by way of maintenance benefits. The comparison is a bogus piece of "comparability". I see no analogy between students and the unemployed.

That said, there are also problems about the table attached to your letter. It appears to show that when provision through grant for books, equipment, travel, and accommodation has been discounted, the student is significantly better off than the unemployed recipient of social security benefits. As you might expect, I would take issue with such a conclusion both on principle, and, if necessary, on the grounds that the notional elements of grant discounted in the calculation have been depressed by the general decline in the value of the grant, and are now insufficient for the unavoidable expenses of the average student.

I agree with you too that we should be wary of specialist price indices, and I shall not be proposing to colleagues that we should accept ESAC's recommendation for the establishment of such an index for students. That is not to say, of course, that we should disregard the evidence on what students actually spend. I accept ESAC's argument that our policy for student support should be informed by research on student costs, and we have therefore commissioned an investigation into students' income and expenditure so that its results can be considered by my Student Support Review Group.

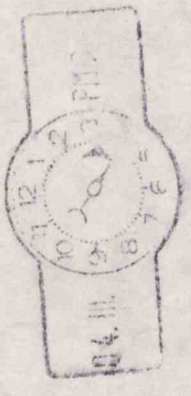
I emphasise that the purpose of this survey is to provide background information. There is no implication that we shall seek to derive from it, in ESAC's words, an "objective assessment of costs and needs", much less that we shall separately identify any "abatement of grant in respect of public expenditure policy".

/cont...

This is a proposal that we must certainly reject. Consideration of the cost of any student support policy cannot be separated from consideration of the policy itself. I agree entirely that we should avoid involvement in any public debate on the premise that there is any systematic connection.

I am copying this letter to the recipients of yours. ie The Prime Minister Members of H Committee and Sir Robert Armstrong.

GEORGE WALDEN



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cc
Mr. Kelly
Mrs Bassett
Mr Walmsley
Mr Aughey
Mrs Woods
Mr Tross
Mr Lord
Mrs Richards

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

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

11 February 1987

Dear Kenneth.

You may remember that I recently mentioned potential presentational danger which could arise from too vivid a comparison between the maintenance element of the student grant and what is currently available to most young unemployed people by way of maintenance benefits. In this context I attach a small chart showing the comparison between the relevant supplementary benefit scale rates and the weekly student grant over the relevant 38 weeks and net of the accommodation, books, and travel elements. As can be seen, the maintenance element is substantially higher than what is available to a single unemployed non-householder aged 18+; and in London it is significantly higher even than the householder rate.

Historically and in my view justifiably, the two matters have been regarded quite separately. I am not seeking to argue against the cogent points made in your letter to John MacGregor of 10 December. But in this Department we are, I think understandably, sensitive to an analysis of the student grant which isolates the maintenance element and then argues that it is not enough to live on. We are also wary of devices such as specialist indices - pensioners indices, student support indices and so on. No index is perfect but a multiplicity facilitates special pleading.

I am copying this letter to the recipients of yours of 10 December referred to above.

Yours ever

Nick.

NICHOLAS LYELL

YA/3064p

STUDENT GRANT

Weekly, over 38 weeks (figure rounded to nearest 10p)

		London		Elsewhere	Home	Free B/L
Board & Lodging						
- Accom (HB Regs)	17.70		13.60			-
- Remainder	20.50		15.50			-
		38.20		29.10	17.10	-
Travel		2.80		2.80	4.50	2.80
Common Elements						
- Vac Rates	5.90					
- Pocket Money	4.40					
- Books/equip	4.90					
- Clothing/laundry	3.00					
		18.20		18.20	18.20	18.20
Total		59.20		50.10	39.80	21.00
Less: accomm	17.70		13.60			
books	4.90		4.90			
travel	2.80		2.80			
		25.40		21.30		
		33.80		28.80		

Supp B Scale Rate

Single unemployed non-householder 18+	£23.85
Single unemployed householder	£29.80

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

FROM THE PARLIAMENTARY UNDER-SECRETARY OF STATE

2nd February 1987

Dear Prime Minister, 3/2

I know that you, and many of your constituents, are concerned about student grants, and I thought you would like to know how our review of the whole subject is progressing.

The first thing I want to stress is our determination to do a thorough job. It is a quarter of a century since this whole tangled area was looked at properly, and I am well aware of the frustrations amongst students and parents - not to mention the heavy costs to the taxpayer - that the present system can produce.

Since comparisons are so often made with the experience of other countries, I am going to look for myself at the way student finance is handled in America, Germany, France and Sweden. There is no doubt at all that our system of direct support is by far the most generous. But we shall be cautious about making simplistic comparisons. I have just returned from America, where I talked to everyone from students to Congressmen. In America, of course, students take out loans to pay for tuition as well as maintenance; that is why their loan debt can sometimes seem high to us. We are not considering asking students or parents to contribute towards the cost of providing higher education. My review is looking at the possibility of a loans, or top-up loans, system only for the maintenance grant, which accounts for just 15% of total public expenditure on higher education.

Another point of interest was that the Americans combine a high level of access - including access for girls - with a relatively expensive loans system. Obviously, their system has its drawbacks too: it is very complex, and sometimes administratively wasteful. But nobody questions the role of personal responsibility in student finance, or the inclusion of a loans element to balance the contributions of parents and the taxpayer. You may recall, incidentally, that Lord Robbins, the architect of the expansion of higher education

Continued....

in Britain, himself stressed the importance of personal responsibility and what he called "justice in distribution" when he suggested, as early as 1963, that we may one day have to contemplate a loans system ourselves.

It is too soon to know what the conclusions of our review will be. But whatever it recommends will be based on British needs and British conditions. Meanwhile, as I tour universities, polytechnics and colleges in this country, I continue to meet many students and hear their concerns at first hand. I have also been to see for myself examples of student accommodation.

Although we are still in the middle of our work, I would like to say a word here about some of these concerns. First, the Government has made no final commitment to introduce loans; merely to look in an open-minded way at the possibility. Second, I am very well aware of the need to ensure that any loan or top-up loan system must not make it harder for people from low income backgrounds, or girls, to enter higher education.

My review will also now be studying the views of the Education, Science and Arts Select Committee on student grants, which has just reported, and which the Department will be responding to separately. At this stage I will make just two points. The Committee's remit was a narrow one, focussing on the present grants system. It did not consider loans, or any alternative sources of finance, other than the taxpayer and parents. Secondly, the Committee rightly stressed the importance of trying to establish more systematically student needs. The review I am chairing has, in fact, just commissioned a full survey of students' income and expenditure.

Finally, as you know, we have just announced that next year's student grant will be uprated in line with the projected inflation level of 3.75%, so the value of the student grant will be held constant for the next academic year.

GEORGE WALDEN

1672/16

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cc BG

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

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

NBPN

23 January 1987

Dear Kenneth,

STUDENT GRANTS

I have seen your minute of 22 December to the Prime Minister about the timescale of the review of student support in relation to the next Election, with which I agreed, and her response of 7 January.

I would only add that I support the point which Norman Fowler has made in his minute of 10 January, where he argues that we should reaffirm in the Manifesto our commitment to removing students from the social security system.

You may also have seen the letter which John MacKay sent me on 23 December, in which he sought my views on the scope for involving the banks in the financing of a student loan scheme. This point was also touched on in Brian Mawhinney's letter to me of 16 January.

It has always been envisaged that consideration should be given to this question at an appropriate stage in the review of student support: and I assume that this will be on the basis of a paper contributed by the Treasury which will examine the issues raised by the idea, which is of course not new. Rather than enter on the substance in this letter, perhaps I could suggest to John that the matter should be pursued in that way. All I would say at this stage is that I do not think we should allow such ideas to distract us from the reality of the cost constraint within which this review is taking place. It would be wrong to think that there is any easy way round that constraint through this idea.

EDUCATION Students Loans PT2

CONFIDENTIAL

I am copying this letter to the Prime Minister, Norman Fowler, Norman Tebbit, John MacKay and Brian Mawhinney.

Yours ever,

JOHN MacGREGOR



PERSONAL AND CONFIDENTIAL

Cite SR(2)

cc BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

22 January 1987

Dear Joan,

STUDENT AWARDS

The Prime Minister has seen the Lord President's minute of 21 January which reported the conclusions reached by H Committee about up rating of student awards.

In the light of the Lord President's minute and of the Committee's discussion, the Prime Minister agrees with the Committee's conclusion that student awards should be increased by 3.75 per cent. In view of the pressures on public expenditure and the need to maintain continuing firm control, the Prime Minister believes it would be wrong to allocate additional resources to student awards. She would prefer to finance the increase by higher parental contributions.

I am sending a copy of this letter to the Private Secretaries to members of H Committee and to Sir Robert Armstrong.

Yours,
David.

(DAVID NORGROVE)

Miss Joan MacNaughton,
Lord President's Office.

PERSONAL AND CONFIDENTIAL

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PRIME MINISTER

STUDENT AWARDS

H have discussed the question whether student awards should be increased by the 2.5 per cent provided for in the Public Expenditure Survey or by $3\frac{3}{4}$ per cent to stay in line with inflation. They have concluded that it would be better to raise student awards in line with inflation.

They considered two options to pay for this. One was not to increase parental contribution scales in line with average earnings. This course was favoured by Mr. Baker and other members of the Committee. They argued that the increase in contributions would be much smaller than that proposed a few years ago by Sir Keith Joseph. They recognise, however, that you preferred the lower increase in student awards and the full revalorisation of the scale for parental contributions.

The Committee also noted that the provision of an extra £5 m. next year and £8 m. in a full year would avoid problems altogether, though of course the Chief Secretary had reservations about this.

The Lord President has in effect asked you to make a decision.

Agree that student awards should be raised in line with inflation?

If yes, **agree** that the extra amount required should be found by uprating the parental contribution scale by a little less than average earnings, noting that you do not favour spending the £5 m. on grounds of pressure on public expenditure?

Yes

David Norgrove
21 January 1987

DG2BQX

CC/HB

+pps/ps

PRIME MINISTER

STUDENT AWARDS

At the meeting of the Home and Social Affairs Committee on Tuesday 20 January we discussed the level of student awards for the forthcoming academic year. You will recall that the need for the meeting arose out of correspondence at the end of last year in which you joined. Since there was a divergence of view in this highly sensitive area we agreed that there should be a collective discussion of the matter.

2. Kenneth Baker put two options to the Committee: either uprate the level of the awards by less than the full amount needed to keep pace with inflation (by 2.5 per cent instead of 3.75 per cent) or revalorise in full and recoup the extra funds by raising parental contributions. He argued strongly for the second of these two options. He believes that the Opposition attack will be better focussed if they have a real cut in the amount of awards on which to base it, and the Government case would not be helped by recommendations from the Select Committee on Education to increase awards. He suggested that parental contributions could be raised by a sufficient amount through a relatively small change in the indexation formula at the same time as it would be being changed in any event to take account of increases in average earnings. He thought this a preferable option presentationally and, although he recognised such a decision would be opposed, he stressed that the increase was of a completely different order of magnitude from that proposed a few years ago by Keith Joseph.

3. The Committee found this analysis persuasive and endorsed Kenneth's proposals while recognising that neither option was without difficulty. It was also noted that a storm in this area

could be prevented entirely by a relatively small amount of additional funding - £5 million next year, £8 million in a full year - though John MacGregor naturally viewed such a concession as running the risk of undermining credibility in the Public Expenditure White Paper.

4. Since you had expressed a view in earlier correspondence, I said that I would report the Committee's conclusions, including this last point, to you before any action was taken.

5. I am sending a copy of this minute to the members of H Committee and to Sir Robert Armstrong.

Privy Council Office
21 January 1987

EDUCATION Student Loans PT2

M. Norgrove

Covering Confidential

David

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

Joan Macnaughton has suggested you might like to see a copy of this. Lord Whitelaw minuted the Prime Minister on the outcome of 'H' on 21 January.

Rob Smith

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

22/1

CONFIDENTIAL

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

FROM THE SECRETARY OF STATE

The Rt Hon Viscount Whitelaw PC CH MC
Lord President of the Council
68 Whitehall
LONDON SW1

20 January 1987

STUDENT AWARDS 1987-88

H Committee agreed this morning that the student grant should be up-rated by 3.75 per cent, at the cost of a modified indexing of the parental contribution scale - by a factor of 6.75 per cent instead of the full increase in average earnings over the last year of 7.5%.

2. The increases in grant rates can be presented as holding the position of students in real terms until the Student Support Review reports, since they represent the full GDP deflator figure of 3.75%. The interest initially will focus on this, particularly in the light of the Select Committee Report whose recommendations imply uprating the grant annually by the rate of inflation as the very minimum, and point to increases well beyond this. As for timing, I would intend to announce as soon as possible the specific rates of grant, both undergraduate and postgraduate, for students living at home and away from home, both London and elsewhere. This will be welcomed by the local authorities, who need the information in order to begin assessing students' grant entitlements.

3. I would announce at the same time that the minimum parental contribution will be raised from £20 to £40, and that the parental contribution scale will be adjusted by 6.75 per cent, "broadly in line with earnings". I intend to publish the scale, with the contributions at each income level for 1987-88 shown against the corresponding contributions in the previous year. It is better to come clean on the reindexing factor and the scale now, rather than having the information dragged out of us. The implications of reindexing will be far from obvious to the uninitiated, since the comparison between 86/87 and 87/88 shows a significantly lower level of cash contribution at each fixed level of income. The initiated, and notably the NUS, will try to focus on the comparison between contributions at equivalent relative levels of income, taking into account the movement of earnings. They will no doubt make their calculations and may be expected to voice their criticisms. But I think that criticism will be at a level we can deal

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with. The change in practice is strictly marginal: nothing like the increases in parental contribution in 1984.

4. I should like if possible to make the announcement next week, in the form of a reply to a written PQ. As usual, it will be followed up by a further detailed announcement, including all supplementary rates of grant, and proposed changes in the Regulations, in the Spring. As we would already have announced the rates of grant and scale of parental contribution, it is unlikely that these further points will prove particularly controversial.

5. I am copying this to Malcolm Rifkind, who will wish to consider the terms of a parallel announcement of the grant rates for Scottish students.

ED^: Student loans pt2



C/86

SECRETARY OF STATE FOR SOCIAL SERVICES

PRIME MINISTER

NBPN

STUDENT GRANTS

On 22 December at flat Kenneth Baker wrote to you about the review of student support. I agree with his views both on the timing of the review's report and on the need to indicate in our Manifesto that we want to look at a variety of ways of financing higher education. I believe we should also specifically reaffirm in the Manifesto our long term commitment of ensuring students are supported other than by the benefit system. This will avoid any misapprehensions that the review team might be prepared to contemplate a weaker stance. We have declared our policy on a number of occasions and should not leave any room for misconception now.

I am copying this minute to Nigel Lawson, Kenneth Baker and Norman Tebbit.

5 January 1987

N F

EDUCATION: Student Loans PT2

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file SH
ccBG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

7 January 1987

Dear Rob,

STUDENT GRANTS

The Prime Minister was grateful for your Secretary of State's minute of 22 December. She has noted his present view that the review of student support should not report before the election.

I am copying this letter to Alex Allan (HM Treasury), Tony Laurance (Department of Health and Social Security), and Andrew Lansley (Chancellor of the Duchy of Lancaster).

Yours,

David.

(David Norgrove)

Rob Smith, Esq.,
Department of Education and Science.

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CONFIDENTIAL

PRIME MINISTER

STUDENT GRANTS

Prime Minister!
Mr Baker believes the review might have to be published before the Election if the Election is held in 1988. Otherwise he would like to publish after the Election? Content?
Noted mt DRN 6/1

We have been giving some thought to the pace at which George Walden's review of student support should proceed, in the light of possible Election dates.

The review is being carried out in close cooperation with other colleagues concerned, and no conclusions have been reached yet. George and I share a preliminary view that there is a strong case for a mixed loans/grants system. We also believe that in the right circumstances, this could be made attractive to both parents and some students. But it is an extremely complex area, and major problems remain to be investigated: loans or part-loans schemes will not yield short-term savings; disentangling grants from the Social Security system - one of the fundamental aims of the review - is hideously complicated; and gaining public acceptance for the principle of loans is a slow business. The climate is changing, but as yet insufficiently, in my judgement, to risk putting the issue to the test before the Election.

In announcing the review, we were careful not to commit ourselves to any firm timescale: merely to aim to report this year. It is the first such review for nearly a quarter of a century and the work must be done thoroughly. George plans to look at foreign experience more closely than has been done in the past, by making visits to a number of countries, which will be combined with visits under his science hat.

ie in the course of 1987, despite the the date of this minute.

My present view is that we should not aim for the review to report before the Election. Nor do I believe that we should try to be too specific in our Manifesto, but confine ourselves instead to

Continued/...

CONFIDENTIAL

restating the case for looking at all ways of bringing more money into higher education, including business sponsorship and loans, without prejudicing the outcome of the review itself. The NUS is in the early stages of a fierce campaign against loans which I have little doubt they will build up as the Election approaches.

The broad direction of where we should be going on student finance is clear to me: there must be more individual responsibility and some financial contribution from the main beneficiaries - the students themselves - in a form that is consistent with improved access. But these are difficult cultural changes which are best faced in the early part of a new government. Meanwhile, the review can continue at a businesslike pace, and we should continue to make the case for looking at loans - as in the enclosed speech by George.

I am copying this minute to Nigel Lawson, Norman Fowler and Norman Tebbit.

K.B.

KB
Department of Education and Science 22 December 1986

THE FOURTH STANDING COMMITTEE ON STATUTORY INSTRUMENTS : 10 DECEMBER 1986

PUSS MR GEORGE WALDEN MP's SPEECH

i. EDUCATION (MANDATORY AWARDS) REGULATIONS 1986

ii. EDUCATION (MANDATORY AWARDS) (AMENDMENT) REGULATIONS 1986

iii. EDUCATION (STUDENTS' DEPENDANTS ALLOWANCES) (AMENDMENT) REGULATIONS 1986

I welcome the opportunity to discuss student support. Nominally our concern is the changes which the Government has made to the arrangements for mandatory awards for the current academic year, and we shall be considering three statutory instruments of which the principal is No. 1306, the Mandatory Awards Regulations. Before I come to the detail of the Regulations I should like [, following the lead of the hon Member for Denton and Reddish,] to address some more fundamental issues to do with student support.

Much has been said in recent weeks about the decline in the real value of the student award. Claims have been made that the decline has been something like 20% since 1979. Not so.

Obviously it makes a difference to the arithmetic what assumptions are put in. If the calculation is based on the movement of the retail prices index, and if proper allowance is made for the treatment of the travel element, we would estimate that the value of the award has been reduced by 13% since the present Government took office. And that calculation

makes no allowance for the £36 added to the grant for all students living away from home. Furthermore, the reduction should be put into perspective. The award has been declining in value ever since it was first introduced in 1962.

It is alleged that the fall in the value of the grant is a disincentive to those considering entering higher education. But the evidence tells a different story. There are now more students in higher education in Britain than ever before. This year there are estimated to be 468,000 full value award holders compared with 369,000 in 1978-79, and 98,000 in 1962-63 when the present awards system was set up. We welcome this expansion. In the years ahead - into the middle of the next decade - the projections recently published by my Department show a reduction in young home initial entrants to higher education which reflects the demographic trend: we hope to see this balanced by increased participation rates, and especially participation by mature entrants.

All of this has a cost, and under our uniquely generous system of direct support for students it is a high one. The cost to the taxpayer of mandatory awards for students in England and Wales is approaching £0.5 billion. Students themselves pay nothing towards the cost of their education, now running at £1.4 billion. Our expenditure on student support represents about 0.25% of our GNP, which is well ahead of the comparable expenditure of our major competitors.

It is not, I am aware, generous in the eyes of the National Union of Students, according to the evidence they have submitted to the Student Support Review. Like all the evidence the Review receives, the NUS submission will be given serious

attention, but I will say a brief word about it now, since the NUS itself has made it public.

If we interpret these proposals correctly, the NUS are proposing improvements to the mandatory grant system which on a preliminary costing will increase the cost from £500 million to £800 million. They do not stop there, however: they want to pay an allowance or "student wage" to all young people continuing in non-advanced education between the ages of 16 and 19. If this includes school pupils the cost would be something over £1 billion. They propose, then, to raise expenditure on student support of all kinds from a present level of about £600 million to over £1.8 billion: a threefold increase.

Yet they surely know the pressures on public spending of an ageing population; they surely understand the economic imperative of controlling the total of public expenditure; they surely accept the moral need for an equitable division of resources. How then can they propose so large an increase in expenditure for their own sectional advantage? Where is their sense of social equity? Where is the recognition that it is the same pool of public expenditure which pays for the sick, the elderly, the unemployed, the aid budget?

In the NUS proposals, the generosity of spirit and the idealism that we see in many young people is notably lacking. I do not believe that students really lack these qualities. I have met and spoken to many of them in my visits to universities, polytechnics and colleges. I have not found them lazy, self-interested or unconscious of the privilege of participation in higher education. They appear at least as much concerned as the rest of us about the claims on our society of less privileged groups such as the sick, the elderly, or the unemployed. They are certainly conscious that they have problems of their own: problems with which I sympathise, including the inevitable frictions of adapting to a higher education system in transition and reform. But they have both a wider vision and a realistic sense of their own destination.

I cannot believe that the NUS grant proposals represent the views of students as a whole. I would like to ask Labour and Alliance representatives to tell the Committee squarely: do they or do they not back the NUS claims for a virtual trebling of expenditure on student support? If they do, I ask them to tell the Committee where the cash is coming from. Are we to borrow it; tax those who have not enjoyed higher education even more heavily to pay for the privilege of those who do; or find the money from some other programme

- if so, which one? Failure to face these questions squarely damages the credibility of those who are more concerned to court short-term popularity with students than with intellectual and financial honesty. Students will not be taken in by hollow promises and sums that do not add up.

To reject such claims is not to argue for the status quo. The Government well knows that the present grant arrangements are not fully satisfactory to the taxpayer, nor to all parents or all students. That is why we are reviewing the whole pattern of student support, and examining a system which has lasted without radical change for nearly 25 years. In doing so, it is important that we should be guided by the twin principles of economic realism and justice in distribution.

The latter is not my phrase, nor have I borrowed if from Professor John Rawls (who, as the Committee will know, is not one of the Government's gurus!). It comes from the Robbins Report of 1963. The opponents of loans often quote Lord Robbins in their own support. But although he rejected, on balance, the immediate introduction of loans in the circumstances of 1963, he did not reject them in principle. It is worth quoting his passage in full:

> "At a time when many parents are only just beginning to acquire the habit of contemplating higher education for such of their children, especially girls, as are capable of benefiting by it, we think it probable that it would have undesirable disincentive effects. But if, as time goes on, the habit is more firmly established, the arguments of justice in distribution and of the

advantage of increasing individual responsibility may come to weigh more heavily and lead to some experiment in this direction."

I think this disposes of the myth that loans are the intellectual property of a flint-faced Tory Government. It seems to me that we are beyond the point where the habit of "contemplating higher education" has become "firmly established". The expansion of higher education has been very much greater than Robbins forecast. The arguments of distributive justice and individual self-reliance now carry considerable force.

I am not a blind believer in loans. My Review will consider all the evidence before coming to any conclusions. We are well aware of the possible difficulties and dangers. We stand by the principle of access to higher education, as laid down in the Green Paper, and we must do nothing to constrain it. In particular we must not discourage participation by those with a lower income background; the proportion of entrants to higher education from the independent schools is still far too high. Nor must there be any disincentive to women: on the contrary, we need to encourage much greater participation by them in scientific and technological education. And we will do nothing to damage the integrity, efficiency or standards that make our higher education system amongst the finest in the world.

But it is no good setting one's face against reality, and ignoring the financial implications of the expansion of higher education which we have secured and wish to sustain. That is why - wearing my Ministerial hat rather than my

Chairman's hat - I regret the decision of the NAB to recommend against any consideration of loans in my review. Note that the NAB did not vote to oppose loans, but voted against any consideration of the issue at all. There is a world of difference. I can only deplore what may be seen by many as an obscurantist attitude to the whole problem of student finance by a body concerned with academic affairs.

Part of the reality to be considered is the experience of other countries. The Review will be taking a close and critical look at arrangements abroad - though not, I assure you, with any view to importing a ready-made foreign model. I shall be travelling to America, Sweden, Germany and France to see for myself how they do things. There is a particular paradox I want to investigate. We all know of course that loan arrangements are commonplace abroad, and that there are a variety of different systems. We are often criticised for our relatively low standing in the international league as far as the rate of participation is concerned. The same critics are often opposed to the domestic introduction of loans because of their alleged disincentive effects. How then do they explain the apparent absence of the disincentive effect beyond these shores? I also want to explore what new thinking is going on abroad: I know that we are not alone in asking ourselves what the best arrangements for student support should be. I notice, incidentally, that Russia is to go for a system of grants related to students' academic performance. I have no present intention to ask them to submit evidence to my review, but Hon Members opposite may care to reflect on the spirit of Mr Gorbachev's innovation.

I return to the grant settlement which we are debating and which has to be seen in the context of the Government's continuing commitment to control public spending - a fundamental part of our economic strategy. We must consider what it is reasonable to expect taxpayers to contribute towards the cost of student support.

The Committee should not believe all the reactions in the last few days to evidence given by my Department to the Education, Science and Arts Committee. I should like to make quite clear that there was nothing new in what was said by officials about the sufficiency of the grant. This Government has for a long time had the honesty to admit that students' needs are not the only factor which must be taken into account in deciding what level of grant is appropriate, and that those needs must be balanced against other considerations. I regularly make this point in correspondence, as many hon Members will know. In doing so I have been following firmly in the footsteps of my rt hon Friend the Member for Leeds, North-East.

The 1986 Grant Regulations reflect the general increase of 2% in all rates of grant which was announced a year ago, together with a further increase of £36 in the grant for all students living away from home which was announced in June this year. The result for the 90% or more of students who live away from home was an increase of 4 per cent: more than the rate of inflation. I recognise, of course, that the £36 was in compensation for the withdrawal of certain social security benefits. The 1986 settlement takes the first step towards the implementation of our long-term policy

that there should be a single channel for the support of students from public funds. The measures announced last June were limited ones, to remove the worst anomalies of double provision. We recognise that the full achievement of the objective has important consequences for the future shape of student support, and that is why it is under consideration in the current Review.

I will not attempt to describe all the changes which have been effected by the Regulations before us today. Most are relatively minor and have been made in response to suggestions put to us. Some are purely technical. Two, however, have attracted considerable attention; and I will therefore take a little of the Committee's time to say a few words about them.

I deal first with the abolition of the special equipment grant. Students following certain courses had been able to claim up to £90, over the entire period of their course, in respect of special equipment. The list of courses which attracted the grant had become full of anomalies and outmoded. Its retention could have been justified only if the list were extensively revised, which would have led to increased costs both in grant payments and in administration. The Government decided that the money could be put to better use elsewhere in the awards system. Specifically, the savings were used to make significant increases in the rates of the older students allowance. These were increased by, on average, 10% in 1986-87.

The changes which we have made to the provisions relating to eligibility for the older students allowance have also been the subject of considerable attention. Until the current academic year, students who were 26 and over and who had been in full-time employment for three of the six years immediately preceding the first year of the course were eligible for additional grant. We have now changed the test of eligibility so that in order to qualify for the allowance students must have earned sums totalling £12,000 at any time during the three years prior to the start of the course (as well as meeting the age requirement). This change was made following representations - from the National Union of Students among others - about the position of part-time students who were excluded under the previous criteria. The Government believes that the new arrangements reflect more closely the purpose of the allowance: specifically to cushion the fall in income when older students enter higher education. Much has been made of the position of students who will not qualify under the new criteria, but might have done under the old. I emphasise that the position of all students currently receiving the allowance will be protected. In the future we expect that the net effect of the new criteria and the increases in allowance will be an incentive one: more older students will take up awards in higher education.

I will be happy to deal with points of detail later in response to points raised by hon Members. I commend the Regulations to the Committee.



CONFIDENTIAL

DAS

bc BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 December 1986

Dear Bob,

STUDENT AWARDS

The Prime Minister has seen your Secretary of State's letter of 10 December to the Chief Secretary about the level of maintenance awards. She has commented that surely all education (as distinct from maintenance) is provided totally free of charge to the student whatever his family's financial circumstances.

I am copying this to the Private Secretaries to the members of H Committee and Sir Robert Armstrong.

Yours,

David.

(DAVID NORGROVE)

R.L. Smith, Esq.,
Department of Education and Science.

CONFIDENTIAL

CCBG

CONFIDENTIAL

1

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

FROM THE SECRETARY OF STATE

The Chief Secretary
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

10 December 1986

Surely all education (or distinct from maintenance) is provided totally free of charge to the student, whatever his family's financial circumstances?

Prime Minister 2

DRN 11/12

Dear John,

STUDENT AWARDS

Your letter of 8 December expresses concern at the line taken by DES officials when they appeared last Tuesday before the Select Committee on Education, Science and the Arts.

2. The level of the student award has fallen by some 23%, as measured by the RPI, since the present system of student support was introduced in 1962/63, when it was presumably fixed at a rate commensurate with the maintenance needs of the average student. It is constantly argued that the students' cost of living, in which accommodation is a very large element, has risen beyond the RPI trend. It is quite certain that the notional board and accommodation element of grant falls well behind the expenditure of students living away from home as regularly surveyed by the CVCP and the NUS. It follows that the other elements of grant, such as the notional provision for books and equipment, have fallen still further behind the cost trend, since they have been squeezed by the board and accommodation element.

3. It is no longer possible to defend the level of the award as adequate to the average student's requirements. Any attempt at such a defence would be unnecessarily provocative: our present and our potential critics would rise enthusiastically to meet the challenge, and would have no difficulty in showing, for example, that the compounded effect of the reduced grant and the rise in parental contribution is that the average net grant has fallen by 33% since the present Government came into office.

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4. There is no need to risk this kind of embarrassment by defending the indefensible. We have been insisting for some time that the expectation that the level of grant should be set at a level sufficient fully to meet students' needs is misplaced. We have been saying for two years or more that the consideration of students' needs must be balanced by an assessment of what it is fair and reasonable to ask taxpayers to contribute. The implication that the grant is not determined at a level fully to meet these needs is plain. That is why DES officials, with Ministerial authority, admitted as much in written evidence to ESAC before they appeared before it.

5. The line taken in the Department's letter to ESAC is the line I would recommend you to take if the subject is raised at Questions on Thursday. I would strongly advise against your trying to sustain the position that the level of grant is adequate to meet present needs. It is an argument you cannot win.

I am giving this letter the same distribution as yours. (ie the Prime Minister, members of H and Sir Robert Armstrong)

Yours ever

Kenneth

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EDUCATION: Student loans: Pt2



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Treasury Chambers, Parliament Street, SW1P 3AG

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

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2 NBPR.

8 December 1986

Dear Secretary of State,

STUDENT AWARDS

Thank you for your letter of 3 December. attag

You asked for provisional reactions by today. In the time available, my officials have not yet been able to discuss the detailed figuring with yours. But subject to that, I would not wish to stand in the way of an uprating on the lines of your option 2, where the cost of the rather larger increase in student grants which you now propose would be offset by restricting the uprating of the parental contribution scale. I would just ask that anything you say about maintaining the value of the grant in real terms should be clearly limited to the forthcoming uprating, and should not be presented in terms of any more general commitment to maintain the value of the student grant in real terms. Moreover if for any reason it was felt necessary to review the proposal by further uprating of the parental scale, the student grant proposal would have to be reconsidered; I could not contemplate any addition on this account to the agreement we reached in the PES bilateral.

That leads me on to a separate point which has given me some concern. There has been wide publicity for the admission by your officials, in evidence to the Education Select Committee, that "we would not now maintain the maintenance element of the mandatory award is sufficient to meet all the essential expenditure of the average

EDUCATION: Student Loans 1982

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student." That went beyond anything that we had said previously, and indeed your officials acknowledged to the Committee that this was the first time that such a statement had been made. It was not cleared with the Treasury, in spite of the obvious impetus which it gives to pressure for higher spending on student grants. I find it particularly surprising that the Treasury's interest was not recognised when I had just written to George Walden to emphasise the cost constraint within which the review of student support is being conducted.

I hope that you can avoid using the formulation adopted by your officials. For my part, if the matter comes up at Treasury First Order Questions this week (as it may) I propose to take the line that many factors are involved in judging the maintenance needs of students. I would not accept that the level of support provided by the Government can be shown to be inadequate. I would be grateful to know whether you agree with that line.

I am copying this letter to the Prime Minister, Willie Whitelaw and members of H Committee and to Sir Robert Armstrong.

Yours sincerely,

Jim Ruth

PP JOHN MacGREGOR

(Approved by the Chief Secretary and signed in his absence)

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CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

Tel No: 233 3299
7471

8 December 1986

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

Dear Secretary of State,

STUDENT AWARDS

Thank you for sending me a copy of your letter of 3 December to John MacGregor. The Government's support amongst younger voters has been badly eroded and that would not be helped by allowing a further fall in the value of student awards. Although our grant system is more generous than that of most other countries neither the general public nor students in general are yet willing to recognise this fact.

I hope that you will not have under-estimated the potential for political difficulty over this. The parents called upon to pay are a group largely favourable to the Government and we should recollect the lobby that arose when we last proposed an initiative (admittedly much greater in its effect) of this kind. What is more, we know that many parents do not make their contributions, or not in full at least.

I should add my concern that very full and careful briefing is set in hand pointing to the review of student support as an indication of the care with which the Government is tackling the difficult questions raised by the financial needs of students.

I am sending a copy of this letter to the Prime Minister, the Lord President, members of H Committee, and to Sir Robert Armstrong.

Yours Sincerely,

pp NORMAN TEBBIT
(Approved by the Chancellor of the Duchy of Lancaster and signed in his absence)

EDUCATION : Student Loans PT2



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bc BG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

5 December 1986

Dear Rob,

STUDENT AWARDS

The Prime Minister has seen your Secretary of State's letter of 3 December to the Chief Secretary about maintenance awards for students.

She has commmented that, in her view, to increase maintenance awards by $3^3/_4$ per cent, paying for them by higher parental contributions as proposed by your Secretary of State, would cause more trouble than increasing the awards by 2½ per cent and indexing the parental contributions against average earnings.

I am copying this letter to the Private Secretaries to the Lord President, members of H Committee and to Sir Robert Armstrong.

Yours,

David.

(DAVID NORGROVE)

Rob Smith, Esq.,
Department of Education and Science

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2

PRIME MINISTER

STUDENT AWARDS

The public expenditure plans provide for an increase in maintenance grants of 2½ per cent in 1987-88. Mr Baker believes this would not be sustainable politically, and proposes to increase them by $3\frac{3}{4}$ per cent, in line with the forecast GDP deflator. He would meet the extra cost by uprating the parental contribution scale by a little less than the increase in average earnings, $6\frac{3}{4}$ per cent instead of 7½ per cent, and raising the lowest contribution from £20 to £40.

Unless you have strong feelings on this I suggest await comments from colleagues.

I think this will give more trouble than the original agreement.

MT

David Norgrove

4 December 1986

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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 John MacGregor OBE MP
Chief Secretary of the Treasury
Parliament Street
LONDON SW1P 3AG

3 December 1986

Dear John,

STUDENT AWARDS

You will recall that when we discussed my additional PES bids this year we reached agreement on figures for student awards which did not enable me to increase the maintenance element of the award by more than the figures underlying the plans set out in Cmnd 9702. In particular, the settlement we reached allowed for the award rate to be increased by 2.5% for the academic year 1987-88, in line with our previous plans. Your assumption was that, given the existence of George Walden's review of student support, it would be possible to defend this real-terms cut on the basis that we were adhering to our existing plans.

2. I have been reflecting on this and have reached the conclusion that such a position would not be tenable and would be very difficult to handle politically in the university seats. While the review is taking place there will undoubtedly be a public expectation that we preserve the status quo by maintaining the rate of the award in real terms: to do otherwise would be seen as pre-empting the review's findings and we should be accused of acting in bad faith.

3. Short of seeking further resources from public funds for student awards - the gap is £5m in financial year 1987/88 - the only way we could protect the value of the grant rate is by increasing slightly the contribution from parents. To increase the maintenance element of the grant for 1987-88 by the full GDP deflator figure of 3.75% would in fact require only a small increase in the parental contribution. This would directly benefit all students - 140,000, including 40,000 independent students, whose parents are not assessed for a contribution - at a cost of a very slightly lower net grant for those 250,000 whose parents are so assessed.

4. The parental contribution scale has to be adjusted upwards annually to take account of increasing earnings: otherwise parents' contributions would climb steeply each year. Since parents are assessed for their contribution on their earnings in the previous

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year, it has been the normal practice to adjust the key points on the income scale - the threshold for contribution and the transition points from one slope to another - to the movement in earnings over that year. The effect is that a parent whose earnings follow the general trend will pay a contribution rising in most cases in constant proportion to those earnings. This year the increase in earnings is running at 7.5%, and our first calculation adjusted the parental contribution scale by that factor. However, there is nothing sacrosanct about it. At a time when the movement of earnings is so far ahead of the movement in prices, adjustment at the full earnings rate may be over-generous to parents: they would do far less well if the scale were adjusted by the GDP deflator. Moreover the Treasury's expectation is that next year's increase in average earnings will be rather less than this year's. A figure somewhat below 7.5% could be defended as consistent with the general movement of incomes, taking one year with another. I would suggest 6.75%.

5. There is also a good case for raising the starting point of the contribution scale, which has been kept at £20 for seven years. If that starting point were adjusted in accordance with the movement in earnings over that period, the figure would be £40, with all other points on the scale increasing correspondingly.

6. I therefore propose to protect the maintenance element of grant by a combination of raising the lowest contribution from £20 to £40, and re-indexing the parental contribution scale by 6.75% instead of 7.5%. These minor adjustments would leave the shape of the scale unchanged. On this account, I do not believe that they would face us with political difficulties on the scale we ran into in the past, when we were seeking to change the whole basis of assessment.

7. Under the alternative options, the rates of grant would be as follows:

	present rate	Option 1 2.5% increase	Option 2 3.75% increase
London	2246	2302	2330
'elsewhere'	1901	1949	1972
home	1510	1548	1567

8. In comparing these alternatives, it is important to bear in mind that:

i. the student award is an amount which represents either the grant itself, for those whose parents do not have to pay a contribution, or the net grant plus the contribution which parents are expected to make.

ii. "before and after" comparisons of grant and parental contribution in relation to the level of income are not straightforward because incomes are not static.

9. The attached table illustrates the effects for the "elsewhere" rate of grant, which 75% of students receive. The gross award, including the parental contribution, is of course constant, as column 9 shows, up to the highest income levels, where higher rates apply only to parents with more than one student child. Below an income level of £9400 under Option 1, or £9300 under Option 2, students receive the full grant; above that level, parents contribute progressively. Take as an example the student whose parents' residual income is £15,000. The parental contribution relating to that level of income in 1986/87 was £1142, but the Table does not start from there because the proper point of comparison is the equivalent relative income, taking into account the 7.5% by which incomes generally have risen. The notional 1986/87 contribution shown in column 3 is therefore the figure corresponding to an income, thus discounted, of £13,953. The table shows an increase in contribution in relation to that notional figure of £63 under Option 1 which is the 2.5% increase: and £103 under Option 2 which is the 3.7% increase: 7 per cent and 11 per cent respectively. Despite the higher award levels, net grant is slightly reduced by virtue of the higher parental contributions, by £15 under Option 1 and £32 under Option 2: about 1.6 per cent and 3.3 per cent respectively.

10. The general effect is that under Option 1, parents in the residual income range £15-£19,000 whose income has kept pace with earnings would have to pay a contribution higher in cash terms by 7 per cent than they paid - or would have paid - in 1986/87. Under my proposed alternative the increase will on average be 10 per cent. Parents in that income range whose income has not increased beyond the price trend will pay virtually the same cash contribution as before; those with lower incomes will pay less. Since the lowest rate of contribution, £20, is doubled to £40, parents in lower income bands will pay proportionately higher contributions, but the sums involved are small. The cash change in parental contribution is a very low proportion of their income: less than 1% at any point on the scale and less than 0.5% at points below £12,000.

11. Turning to the net grant, the Table shows higher levels of net grant under Option 1 up to a residual income of £14,000 than those a student whose parents were assessed for an equivalent relative income received in 1986-87, but on option 2 the comparison turns unfavourable at the £13,000 point. Net grant under Option 2 is in fact marginally lower than under Option 1, by between £15 and £25, at all points above £9,400. An important defensive point, however, not shown by the Table, is that at any level of parental income in equivalent real terms, all students will receive as much grant in real terms in 1987-88 as in 1986-87, and many will be better off.

ie 3¾%.

12. I propose therefore to raise the grant rates for 1987-88 by our estimate of general inflation, and to adjust the parental contribution in the way I have indicated. In my judgement we will have the best balance of presentational advantage by announcing that students' grants have been uprated in line with inflation. But colleagues should be clear that this is the lesser of two

evils: we are unlikely to have an easy time. Interest in student awards is high in any event; there is to be a Debate on an Opposition Motion on 9 or 10 December; and the Education, Science and Arts Committee propose to produce a short report on the present awards system before Christmas. Malcolm Rifkind will no doubt wish to make a separate announcement of the rates for Scotland. My announcement will need to set out the new parental contribution scales: I shall do this in a low-key way.

13. I thought that I should spell out my intentions in this way since we are all conscious of the high level of interest in student support, and have reason to be cautious where the parental contribution is concerned. If you or other colleagues have any comments on the line I am proposing to take I should be glad to have at least provisional views by 8 December and some colleagues may wish to meet to discuss it. I am sorry for the tight timing, but I would like to have an indication of colleagues' views about my proposal before the Debate on 9 or 10 December - although I do not intend to make any announcement then.

14. I am sending copies of this letter to the Prime Minister, the Lord President and Members of H Committee and to Sir Robert Armstrong.

Yours ever

Kenneth

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PARENTAL CONTRIBUTION AND NET GRANT

(1) Residual Income	(2) Students 000	PARENTAL CONTRIBUTION* (3) 1986/87	(4) Option 1	(5) Option 2	NET GRANT¥ (6) 1986/87	(7) Option 1	(8) Option 2	GROSS GRANT (9) Option 2
up to 9000	98	0	0	0	1901	1949	1972	1972
9300		0	0	40	1901	1949	1932	1972
9400	18	26	20	54	1875	1929	1918	1972
9500		40	34	69	1861	1915	1903	1972
10000		106	106	140	1795	1843	1832	1972
11000	18	239	249	283	1662	1700	1689	1972
12000	18	375	397	437	1526	1552	1535	1972
13000	17	561	597	637	1340	1352	1335	1972
14000	16	748	797	837	1153	1152	1135	1972
15000	15	934	997	1037	967	952	935	1972
16000	14	1120	1197	1237	781	752	735	1972
17000	12	1306	1397	1437	595	552	535	1972
18000	11	1519	1627	1672	382	322	300	1972
19000	10	1751	1877	1922	150	72	50	1972
20000 and over	85	1901 ↓ 4300*	2127 ↓ 4600*	2172 ↓ 4600*	0	0	0	2172

EXPLANATION: Col 1 : residual income on which grant is assessed

2 : number of dependent students (000) below, between, or above income points. (NB: There are a further 40000 independent students whose parents are not assessed for a contribution)

3 and 6 : contribution paid and net grant received last year for equivalent relative income (income in col 1 - 107.5 x 100)

4 and 7 (Option 1) : contribution paid and grant received on the basis of a 2.5% increase in grant and indexation of the income scale by 7.5%

5 and 8 (Option 2) : contribution paid and grant received on the basis of a 3.75 increase in grant, a minimum parental contribution of £40, and indexation of the income scale by 6.75%

* No parent is assessed for a contribution higher than the maintenance element of the appropriate grant rate. The contributions higher than the London rate apply only to parents with two or more student children

¥ Based on the grant rate applicable to students who study away from home, and not in London

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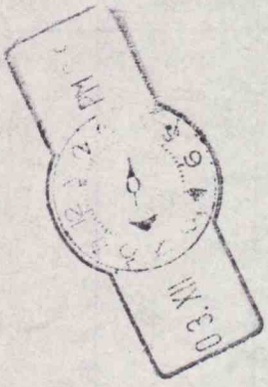


Government's efforts to get out of the mess that they are in will in no way delay the placing of much needed orders for the Challenger tank?

Mr. Younger: The decision on the Challenger tank will be taken on the basis of the best possible value and delivery and on other such factors. I can assure the hon. Gentleman on that point. He asked about the supply of equipment to the armed forces. There is no reason why the change should make any difference to that, and I agree with him that it is a mater of great importance.

Mr. Martin M. Brandon-Bravo (Nottingham, South): My hon. Friend the Member for Nottingham, North (Mr. Ottaway) spoke about the Nottingham Royal Ordnance factory and the stability of the work force. Is my right hon. Friend aware that at one time the work force at Nottingham declined from about 2,000 to just over 1,000? That happened under the old trading status, and the growth in the labour force at Nottingham has occurred solely during its current plc status.

Can my right hon. Friend say something about the difference between the management structure of the old system and the management structure of the new system? Can he tell us what benefits that gives the present plc management, whether or not the company is privatised, in going out and getting business that was denied to the company under the old system? Will he give some assurances to my work force in Nottingham?

Mr. Younger: I appreciate the point made by my hon. Friend. It seems that recent efforts by the Nottingham factory management have been fruitful and productive, and my hon. Friend is quite right to draw attention to that.

In terms of the future of the various Royal Ordnance factories and the jobs in them, I have to tell the House that it is the gaining of orders, especially export orders, that will make the difference to all these factories. I hope that management will go ahead and make the factories as competitive as possible, in order to obtain the best possible level of orders.

Mr. Denis Healey (Leeds, East): I agree with the Minister that it is the state of the order book that determines the date of sale if privatisation is intended. Will the Minister confirm that it was his intention last week to announce that the Challenger tank order would be given to the Leeds factory? The placing of that order is at his disposal. On Saturday he was dissuaded from taking that decision by the intervention of a private firm which is a well-known supporter of the Conservative party. All his plans are now falling to pieces because he is not now able to give the Challenger order to Leeds. The Leeds factory has a long history, going back to the beginning of the last war, of being the best provider of main battle tanks to Britain. Many people believe that it makes the best main battle tanks in the world.

Mr. Younger: I share the views of the right hon. Member for Leeds, East (Mr. Healey) about the excellent work carried out at the Leeds factory. He is right to draw attention to that. I am glad of his confirmation of something that has not been agreed by many of his colleagues, namely that it is the state of the order book that will determine the future of the factories, wherever they are. There was never any intention to announce any Challenger order next Saturday. As I have said, the decision on that order will be taken on the basis of the best price and the best factory.

Social Security Benefits (Students)

3.54 pm

The Secretary of State for Social Services (Mr. Norman Fowler): With permission, I should like to make a statement about social security benefits and students.

In January the Government published proposals which were a first step to channelling support for students more through the educational maintenance system than the social security system. I referred these proposals to the Social Security Advisory Committee and I am today publishing the committee's report together with the Government's response to it. I am also laying before the House amended regulations which take account of its views and those of the local authority associations and others expressed during the consultation period.

It remains the Government's view that in the long term it cannot be sensible that students should be subject to two separate but intertwined systems of support. It cannot be satisfactory to have students permanently dependent upon a system which is primarily designed for those who, for various reasons, cannot work rather than for those who have withdrawn voluntarily from the labour market to study. The vast majority of comments to the Social Security Advisory Committee supported the principle of rationalising student support. But at the same time three main concerns were expressed.

First, there was concern that the major change proposed to housing benefit, on whereby the accommodation element in the grant would be taken fully into account when assessing housing benefit entitlement, would cause a wide range of losses. The Social Security Advisory Committee shared that concern while at the same time recognising the case in principle for the change. Although there is no doubt that the present rules treat students more favourably than other claimants, the Government are prepared to withdraw that proposal.

Second, there was concern that in relation to the withdrawal of housing benefit for accommodation left unoccupied in the summer vacation some students would not have time to change existing plans and commitments. We recognise their concern and, therefore, this measure will not take effect until the summer of 1987, as we accept that students who have already entered into rent commitments for this summer could face difficulties.

Third, there was concern about the position of students without an award who have begun their studies on the assumption that they would continue to draw benefit at the current level. We accept that we should protect the most vulnerable of these—existing students living away from their parents' homes. Those students will be treated as now for housing benefit — in respect of private rented accommodation in term time and the short vacations—up to 1 April 1988, or when their present course ends.

The remainder of the Government's proposals are largely unchanged. We shall remove entitlement to unemployment benefit and supplementary benefit in the short vacations when students are already provided for through the grant. We shall simplify housing benefit administration by averaging grant income for the whole of the grant-assisted period. Students in halls of residence will in future be able to claim housing benefit only during the long vacation for which there is no provision in the grant.

[Mr. Norman Fowler]

Our proposal to make a £36 additional increase in the grant still stands and is an important step to the long-term aim of shifting student support away from the social security system. Nevertheless, the Government recognise that there are important issues to be discussed before making further progress towards that aim. This raises a question of a wider review of student support and that will be dealt with by my right hon. Friend the Secretary of State for Education and Science in his statement shortly.

Our other proposals have been widely welcomed and will go forward. We shall extend help under the students' dependants' hardship scheme to cover the full year for two-parent families, as well as single parents. We shall disregard for housing benefit those parts of the grant which cover books and travelling expenses. That change will now take effect for the academic year 1987-88. We shall provide a firm legal basis for treating students' income from parental covenants so that it does not affect their claims to benefit during the summer vacation.

The Government's long-term aim of removing students from the benefit system has been widely welcomed and accepted in principle. It cannot be right that generations of students should be encouraged to depend on social security. We set out our proposals five months ago and we have responded carefully to the comments made upon them. I believe that the proposals I have described today represent sensible steps towards rationalising provision for students, and reducing their dependence on benefits.

Mr. Michael Meacher (Oldham, West): Is the Secretary of State aware that, although we welcome the fact that students will at least now not be made homeles by housing benefit cuts this summer vacation, he is still proceeding with substantial benefit cuts for students which will not be adequately compensated for by the grant system? Is the right hon. Gentleman further aware that his proposals will cause severe losses to up to 250,000 students who are caught in the crossfire between the DHSS and the Department of Education and Science?

Is the right hon. Gentleman also aware that the two-month delay in making this statement, since he had the damning SSAC report at the end of March, has accentuated the difficulties particularly for mature students and for those from poor backgrounds, because several housing benefit offices, such as those at Reading, Aberdeen and Dundee, have already been refusing to allow students to sign on? Will he therefore issue immediate instructions to all DHSS offices to meet students entitlements in full this summer?

Is the Secretary of State aware that, while the Opposition understand the principle that students should be supported by grants and not by means of the social security budget, we do not accept that benefits should be cut sharply before an adequate alternative grant system is formulated and implemented? The mere promise of a review of grant in the light of the aborting of the previous one is a wholly insufficient substitute.

Will the Secretary of State acknowledge that student entitlement to social security benefit has been growing solely because of the diminishing value of the grant, which has fallen by 20 per cent. in real terms since 1979? Is he aware that what is proposed today is scarcely a genuine review when students are being squeezed by the DHSS while proper compensation from the DES slips further into the future?

How does the Secretary of State justify failing to improve on the original and miserly £36 compensation a year for loss of housing benefit during the short vacations? Why does he not admit that he is looking to parents to met at least one third of the losses?

Is the right hon. Gentleman aware that his continued insistence on removing entitlement to unemployment benefit and supplementary benefit at Christmas and Easter is tantamount to saying that students should not be available to work in the short vacations? The falling real value of the student grant means that they need to find work or to claim benefit to get by.

This statement means that, contrary to the clear prescription of their own advisers and contrary to natural justice, the Government still intend to take money away from students on the basis of a vague promise of some future IOU. That is wrong-headed and unjust. The Secretary of State should withdraw all these benefit cuts until the grant review is completed.

Mr. Fowler: I do not accept what the hon. Gentleman has just said. He says that he understands the principle of seeking to reduce students' reliance upon the social security system. I hope that he supports that principle because that was the position of the majority who gave evidence to the Advisory Committee. There will be an opportunity to debate the regulations when they come forward.

The hon. Gentleman is not right in his generalisation about losses. Indeed, 140,000 students will gain from our proposals. As a result of our concessions, many fewer housing benefit losses will take place. Students are not normally affected by losses from more than one source.

Mr. Dennis Skinner (Bolsover): How many losses?

Mr. Fowler: As losses are not cumulative, it is not possible to provide that information.

Mr. Skinner: How many?

Mr. Fowler: If the hon. Gentleman understood the means whereby—*[Interruption.]* It is not possible to work out exactly what the losses are and the number of students who will be losing because the losses are not cumulative.

We are seeking to return to a position where help for students is channelled through the educational maintenance system. That must be right. Only a few years ago no students claimed from the social security system and now most do, at an annual cost approaching £120 million. Claims by students for housing benefit have come literally only in the past three or four years. It has not been the housing benefit system that has created that demand.

The hon. Member for Oldham, West (Mr. Meacher) has failed to understand the significant concessions that we are making. For example, there is the concession of deferring the removal of housing benefit for unoccupied accommodation in the long vacation. Another concession is the decision not to proceed with the new method of calculating housing benefit. These are substantial concessions that have been made in the light of the evidence that has been given to us. We stand by the principle that it cannot be right to have two systems

running side by side. It must be right to have more help for students channelled through the educational maintenance system.

Several Hon. Members *rose*——

Mr. Speaker: Order. The House will have heard the Secretary of State say that there will be a debate on this matter. As there are two more statements to follow on broadly the same issue, I shall limit questions on this statement until 4.15 pm, and then we must move on.

Mr. Robert McCrindle (Brentwood and Ongar): Having asked my right hon. Friend to slow down the transfer from reliance on housing benefit, may I congratulate him on making this statement to the House? Will he confirm that the principle of providing support for students, principally through the student grant system, is still very much an aim of the Government? Will he confirm also, sitting as he is next to my right hon. Friend the Secretary of State for Education and Science, that as we move forward there will be meaningful discussions between the two of them so that a better timetable for achieving our objective can emerge?

Mr. Fowler: I confirm what my hon. Friend says. There will be discussions between my right hon. Friend and I. I think that it is right to have the longer review of the overall position which bodies such as the Advisory Committee want. My hon. Friend is right to suggest that there are three significant concessions in the statement, which will appear in the regulations that will be placed before the House, which I believe will be widely welcomed by the student population and the Advisory Committee. At the same time, we have adhered to the principle of seeking to have more help coming through the educational maintenance system than through benefit, which I believe is in the public interest as well.

Mr. Archy Kirkwood (Roxburgh and Berwickshire): Why has it taken so long for the Secretary of State to make this statement? Is he aware that university vacations at St. Andrew's, Cambridge and Bangor have already started? What does he say about the Advisory Committee's comment that he has switched some of the specifically targeted benefit savings to indiscriminate flat rate subsidies? That seems to move against all the principles that he has adopted in his other social security reviews. Is he not putting the cart before the horse by pre-empting the review that the Secretary of State for Education and Science will be announcing later?

Mr. Fowler: I do not think that that is fair. We said in the Green Paper on social security last year, and in the White Paper, that it was our intention to move in the direction that I have outlined. That has been supported. We are taking only a first step, however. We have made significant concessions and the overall savings position has been very much affected by that. We have sought in the concessions that we are making to guard against students being affected in a sudden way. Students will enjoy a significant concession during the coming summer vacation.

Mr. J. F. Pawsey (Rugby and Kenilworth): Is my right hon. Friend aware that his statement should be welcomed widely in the House and outside? Does he agree with me that it should be viewed against the most generous system of student support in the western world? Will he confirm that the concessions that he has announced will cost about £20 million? Will he further confirm that both housing benefit and supplementary benefit will be available to students for the long vacations?

Mr. Fowler: Help will be available in long vacations. As my hon. Friend suggests, it is right that that should be emphasised. It seems not to be understood, even by some of those who have been lobbying on these matters over the past month, that the proposals are confined to short vacations and not to long ones. I must remind the House that we are spending £5 million in housing benefit that goes to halls of residence. The administration costs of paying that £5 million is £3 million a year. *[Interruption.]* It seems absurd that sensible people like the hon. Member for Birkenhead (Mr. Field) should be defending such a system.

Mr. Frank Field (Birkenhead): Does the Secretary of State really expect the House to believe that he got his statement through the Treasury without detailing the number of students gaining and the number losing? Will he come clean and tell the House the number of students who will still lose under these proposals? As he is so caught up with cumulative and non-cumulative totals, I am sure that the House would be happy with a non-cumulative total.

Mr. Fowler: I cannot give that figure for the reasons that I have stated. What is certain is that 140,000 students will gain from the full £36 we are making available. There are obviously two main sources of loss—unemployment benefit in short vacations, and housing benefit on unoccupied accommodation in the long vacation. The hon. Gentleman will know, for example, that we are postponing the introduction of that until 1987. It is not possible to give the exact figure that the hon. Gentleman requires.

Mrs. Elaine Kellett-Bowman (Lancaster): Does my right hon. Friend accept that I am glad that he has listened to the anxiety of students on covenants who are unfairly affected vis-a-vis those on sponsorship and those on full grants, and has taken steps to remedy that? However, I am still worried about those who can get accommodation only by taking an annual lease. That situation will not disappear in the summer of next year. My right hon. Friend has given himself leeway to think again, and I hope that he will do so.

Mr. Fowler: I hear what my hon. Friend says. I think that she will recognise that postponing the implementation of the proposal for a year enables the position to be examined from the point of view of the student and the landlord. Clearly we shall keep the position under review.

On the matter of the restoration of policy on the treatment of parental covenants, that decision has been widely welcomed. We shall put that beyond doubt in the regulations.

Mr. George Foulkes (Carrick, Cumnock and Doon Valley): In relation to the revised proposals announced by the Secretary of State today, can he tell us what the total saving to the DHSS budget will be in the first full financial year?

Mr. Fowler: In 1986-87, which is this financial year, the overall saving will be about £8·5 million. In 1987-88, it will be £16 million.

Mr. Michael Latham (Ruthland and Melton): I thank my right hon. Friend for listening to the expressions of

[Mr. Michael Latham]

concern of many of his supporters on this matter. Will he give an assurance that it is not the Government's intention that qualified students should be denied places in higher education because they or their parents cannot afford it?

Mr. Fowler: I can readily give that assurance on behalf of the Government.

Mr. Peter Hardy (Wentworth): Is the Secretary of State aware that his statement seems to be an exercise of unwitting self-condemnation? Does he accept that in some areas there is a serious regionally intense problem? Does he accept that in areas of high unemployment, the Government's underlying assumption that students can work in the long vacation is simply not tenable because of the job starvation in those areas? Does he also accept that the problems faced by students in those area are particularly acute and seem to have escaped his attention in the statement today?

Mr. Fowler: We are not making proposals on the long vacation. It seems that the hon. Gentleman has asked a question based on an entire misunderstanding of the position.

Mr. Nigel Forman (Carshalton and Wallington): Is my right hon. Friend aware that, in so far as I understand the statement, I welcome the alleviations in it? For the benefit of myself and the House, will he put in the Library a simplified and clarified version of what he has said in order to give students and their parents the benefit of clear information?

Mr. Fowler: I accept that. I shall certainly endeavour to follow up my hon. Friend's request.

Mr. Tam Dalyell (Linlithgow): How much cash has the right hon. Gentleman winkled out of the Treasury for extending the student dependent hardship scheme?

Mr. Fowler: I cannot give that figure off hand. I should be glad of the hon. Gentleman's support on this, if I interpret it as support. Clearly that is one area where money will be paid.

Mr. Dalyell: How much?

Mr. Fowler: It is not a substantial amount. What is a substantial amount is the concession that we are making on the method of calculating housing benefit where the savings are £20 million less than would otherwise be the case.

Mr. Charles Kennedy (Ross, Cromarty and Skye): What peculiar ability is it by which the Secretary of State can estimate projected savings for the Treasury but cannot estimate the projected number of affected students?

Mr. Fowler: For the very good reason that there is a series of proposals which may affect individual students but which are not cumulative. Unless one knows the individual position of each student, it is impossible to give the kind of information that the hon. Gentleman wants.

Students (Support)

4.14 pm

The Secretary of State for Education and Science (Mr. Kenneth Baker): With permission, Mr. Speaker, I should like to make a statement on student support.

The measures just announced by my right hon. Friend the Secretary of State for Social Services mark a return towards a system in which support for students will be provided through the single channel of the educational maintenance system. It is a limited step, taken in close consultation with my Department. I am, however, convinced from the many representations I have received that it would be very difficult to make further progress towards disentangling students from the social security system without a wider examination of the whole structure of student support.

My right hon. Friend the Secretary of State for Scotland and I, in association with the Secretary of State for Social Services, have therefore decided to institute a comprehensive review of all aspects of financial supprt for students in Great Britain studying at first degree or equivalent level. It will examine the maintenance needs of students and the extent to which they should be provided for from public funds, having regard to other actual and potential sources of support, including loans.

The study will be carried out under the chairmanship of my hon. Friend the Parliamentary Under-Secretary of State for Education and Science, the hon. Member for Buckingham (Mr. Walden). The Scottish Education Department and the Department of Health and Social Security be represented on it and the Education Departments of Northern Ireland and of Wales will be associated with it. The review will be carried out within Government, but we shall be open to representations and advice from every source. We shall undertake extensive consultations and consider international comparisons. The outcome of the review will itself be in the form of published proposals for public discussion and consultation.

Meanwhile, because the Government recognise the needs of students, we have mitigated the proposed removal of benefit whilst maintaining the level of compensation through the grant system originally proposed. Subject to the agreement of Parliament, the maintenance grants of students living away from home will be increased by £36 per annum from the beginning of the academic year 1986-87. This will be in addition to the increase of 2 per cent. which my predecessor announced on 16 December and will result in an overall increase of 4 per cent. on present rates for students living away from home. That is higher than the current rate of inflation. A similar addition to grant will be made in Scotland. A paper setting out detailed grant rates is being placed in the Library. The main rates of grant applicable to Scottish students are being given separately in a written answer by my right hon. Friend the Secretary of State for Scotland today.

Student numbers in higher education are at an all-time record level. We want still more to benefit. The Government stand by the principle of access to higher education for all who have the necessary intellectual competence, motivation and maturity, regardless of parental income. We want to ensure that students will neither be deterred from entering higher education nor handicapped in their studies by lack of means. But in doing

so we must have regard to the claims on national resources. That is why I think that the time is ripe to investigate with an open mind all possible forms and sources of support.

I hope that the House will welcome the review which I have announced today.

Mr. Giles Radice (Durham, North): I welcome the Government's partial retreat from their original proposals on social security entitlement for students. However, I agree with my hon. Friend the Member for Oldham, West (Mr. Meacher) that they should be withdrawn altogether until the review is complete. Can the right hon. Gentleman, unlike his right hon. Friend the Secretary of State for Social Services, tell the House how many students will lose out as a result of the revised proposals? Is he aware that his statement conveniently ignores the fact, recently admitted by the Minister with responsibility for higher education, that the real value of the student grant has fallen by one fifth in real terms since 1979? The statement holds out no prospect of a significant improvement.

Does the right hon. Gentleman accept that his in-house review, with its restrictive terms of reference, ignores the financial needs of non-degree students and pupils who stay on in full-time education after the age of 16, although both groups are vital to the future of this country?

Finally, is the right hon. Gentleman aware that his attempt to present the idea of a review of student grants as a promising new beginning has a hollow ring for those of us who remember the previous so-called comprehensive review, which was set up in humiliating circumstances by his predecessor in December 1984 and unceremoniously abandoned last autumn? What guarantee is there that the latest review, for which the right hon. Gentleman has given no completion date, will not suffer a similar fate?

Mr. Baker: As to whether we should postpone the changes announced by my right hon. Friend the Secretary of State for Social Services until the review has been completed, I remind the hon. Gentlemant that the Social Security Advisory Committee recognised that there was an element of double counting in allowing supplementary benefit and unemployment benefit for the short vacations. Those are the two principal changes being made. As my right hon. Friend said, the administrative costs of dealing with those very small claims this year was out of all proportion for the social security system.

In accept that the value of the grant has fallen by about one fifth or £90 million in real terms, but I remind the House that social security payments have risen to more than £120 million within the system. Housing benefit, which was principally introduced about four years ago, accounts for about £50 million for that. I should also point out that although grants have been cut, the number of students has risen by 80,000 under the present Government whereas under the Labour Government it fell by 2,600.

I do not know whether the Labour Front Bench intends to restore the level of student grant to what it was in 1979. In a speech last Friday the Deputy Leader of the Labour party seemed to put some kind of bridle on the hon. Member for Durham, North (Mr. Radice). Durham wants to spend but Sparkbrook says "Whoa". A newspaper headline on Saturday read:

"'Expansion not on' Hattersley tells dons".

On the hon. Gentleman's final question about the review and why I have announced it, I should state clearly that when I assumed responsibility for this office I looked at this question and decided that a review was clearly needed. That is why I have announced it today.

Mr. Harry Greenway (Ealing, North): Does my right hon. Friend accept that there are two classes of student today—those on full grants and those whose grants are expected to be topped up by their parents, some of whom cannot afford to do so? Will he examine that aspect to ensure a more even situation for all students? Will he also seek to restore the grant lost through inflation?

Mr. Baker: The review will certainly look into that aspect. Student support now comes from two sources—from grants and from the social security system—and that is the sum of money that the review will consider. I have stated that loans are not ruled out as a means of topping up grants in recognition of the very point that my hon. Friend has made.

Mr. Michael Meadowcroft (Leeds, West): Does the right hon. Gentleman accept that one of the major flaws in his statement is that the review is to be conducted within Government and that it is impossible to welcome a review when the membership of the review team is to come from the same ideological straitjacket as the right hon. Gentleman?

Why does the right hon. Gentleman exclude the 16 to 18-year-olds, and why is his proposal confined to first degrees or equivalent? Will the review be sufficiently cross-departmental to include Manpower Services Commission funding which often stops people going into training or education when it could be used for that purpose?

Does the reference to loans mean that the outcome is cash limited and that if the right hon. Gentleman cannot get any more cash on the table when the review findings come out there will be a return to loans? Is he aware that loans already exist? They are known to students as overdrafts.

Mr. Baker: As I said in my statement, the review will be cross-departmental because other Departments are involved, principally the DHSS but also the Scottish and Welsh Departments. The review will be wide and thorough. My hon. Friend the Parliamentary Under-Secretary of State will be starting on it later this summer —*[Interruption.]* It will have to be thorough because it is the first review of student grants for 25 years.

Mr. Andrew F. Bennett (Denton and Reddish): Rubbish.

Mr. Baker: With great respect, it is the first for 25 years.

I am glad that a Liberal Member raised the subject of loans, although he should perhaps clear his channels of communication with the leader of the SDP, who made an important speech at Stirling university in February indicating a fundamental change in student support and floating the idea that student support should be operated by the universities and polytechnics themselves and that students should be given not only the student support money but part of the tuition fees to take around to address different institutions. The leader of the SDP also said that students would be able to take out loans for topping up, so there seems to be some support in part of the alliance for the concept of loans.

Mr. Robert Rhodes James (Cambridge): I welcome the announcement of a thorough and comprehensive review, but may I impress upon my right hon. Friend that the voices of industry, business and schools must be heard as well as those of higher education and Government? Will the review include the problems of parental contributions and the wider problems of financing research and academic salaries?

Mr. Baker: Financing research and academic salaries are rather separate matters, but I warmly endorse what my hon. Friend said at the beginning of his remarks. The review should certainly cover the attitudes of schools and the other aspects that he mentioned. I am concerned about the disincentive for 18 and 19-year-olds to go into higher education. This has been well measured over the years and probably owes more to the social attitudes and quality of education in schools than to cash considerations.

Mr. Max Madden (Bradford, West): Does not the Secretary of State owe it to students to give a clear statement of the date given to the review team to complete its work? Will he undertake that all evidence submitted will be published? In view of the dramatic reduction in the real value of grants since 1979, does he not also owe it to students to state that new money will be available for a substantial increase in student grants when the review is completed?

Mr. Baker: The review will examine the whole question of student support, which might be a mixed system of grants and loans or grants and sponsorship. All these ideas are opening up. For example, Mr. Ball, who is warden of Keble college and chairman of the board of the National Advisory Body for Public Sector Higher Education, which includes the polytechnics, made a proposal last week recommending grants for two years and loans and sponsorship for the third year. Ideas of that kind will have to be examined.

The evidence will be public. I am sure that the various bodies will make it public themselves. If they do not do so, we shall make it public unless they ask for it to be held confidential, as some of it might be in matters of this kind.

Mr. Roger Sims (Chislehurst): I congratulate my right hon. Friend on recognising the significance of these problems and instituting a review so soon after taking office. Will the review take into account the disparities which now exist among authorities in relation to discretionary and mandatory grants as this leads to some apparent injustices?

Mr. Baker: I can confirm my hon. Friend's last point.

Mr. Frank Field (Birkenhead): Does the Secretary of State realise that the total increase in the student grant that he has announced today, inadequate as it is, is twice the increase in the old-age pension? Would it be right for Britain's 9 million pensioners to conclude that that is where they come in the Government's pecking order?

Mr. Baker: That question would be best directed to my right hon. Friend the Secretary of State for Social Services. I believe that I have secured a pretty good deal for students this year in that the basic grant is going up by 4 per cent., which is more than the rate of inflation.

Mr. J. F. Pawsey (Rugby and Kenilworth): Despite some of the carping comments from Opposition Members, will my right hon. Friend accept that the review will be thoroughly welcomed not only in the House but by those in higher education? His reference to student loans will be widely welcomed. We hope that it will receive favourable consideration by the review body. May I ask for further advice? In regard to the 4 per cent. increase that he mentioned, does that mean effectively that at least for this year the grant has been inflation-proofed?

Mr. Baker: The grant for those students who are not living at home has been inflation-proofed. I think this will be welcomed by many students. As to loans, that is a matter which is very much a matter for public debate. Various schemes have been put forward in the student world itself and in the academic world. They relate not just to student support but to the whole financing of higher education. There is now a greater fluidity and mobility in the thinking on that subject than for many years.

Mr. Dennis Skinner (Bolsover): Is the Minister aware that in all his answers about the thoroughly comprehensive review he has—inadvertently, I assume—forgotten to tell us the completion date? Am I right in assuming that the review will not be finished before, say, August 1988, or is it that two years for him is only a short time in politics?

Mr. Baker: I think that it will be completed before that. I should think that it is likely to be completed in the course of the next year. Then it will be a public consultation document. [HON. MEMBERS: "Oh!"] Surely that is what the House and the country would expect. Surely I am not expected to hold a review under a Government Minister and to slap the result on the table and say "That is that." We want to hear wide views and comments from the many people who are affected.

Mr. Alan Howarth (Stratford-on-Avon): Is my right hon. Friend aware that there will be a widespread welcome among many anxious students and their families for the decision to re-establish the review and in particular for his willingness to contemplate a properly structured loans element? Can he see any way other than through loans whereby students can be disentangled from the clutches of the social security system and whereby all who are academically qualified may have an equal opportunity to enjoy higher education other than in conditions of penury?

Mr. Baker: The main thrust of what my right hon. Friend and I have said today is to disentangle students from the social security system. I think that enjoys wide support across the House. In the Beveridge report, which I studied last week, he specifically recommended that students should not be eligible for unemployment benefit. We are not making that change at the moment. Under what my right hon. Friend has said today, students will still be eligible for supplementary and unemployment benefit during the long vacation. One cannot withdraw those benefits without having a review to replace them with other forms of support. I do not exclude schemes of sponsorship by industry or a form of loan, possibly on a subsidised basis.

Mr. Gordon Wilson (Dundee, East): In attempting to recast the grant structure for students, will the Secretary of State take into account a possible serious knock-on effect if loans were to be institutionalised? Does he realise that Scottish universities offer courses on a four-year basis and that that could be a substantial disincentive to students coming to Scottish universities?

Mr. Baker: I understand that. That is why a Scottish Minister will be closely involved with the review.

Mr. Anthony Steen (South Hams): Clearly the Government cannot have a bottomless pit of expenditure on student grants. Is it not right that the Government are spending £2,800 million on student grants? Does my right hon. Friend agree that the review body should examine the question of interest-free loans? Does he agree that students cannot always survive on the grants that the Government give? With the problem of unemployment they may not be able to find work to augment their grants. Therefore, interest-free loans would be an important step forward.

Mr. Baker: Certainly the review body will examine that. It is fair to remind the House that, compared with other western developed countries we have a uniquely high level of student support—three to five times higher per student compared with Holland and Germany, and significantly higher than in Denmark, France and Italy. The difficulty in Britain is that the two systems—the social security system and the educational maintenance system—have become tangled. It is in the interests of everybody to sort that out.

Mr. Charles Kennedy (Ross, Cromarty and Skye): In view of his statement and his earlier answer, will the Secretary of State confirm that the Scottish Education Department wil be represented fully by a sponsoring Minister, that is, his hon. Friend the Minister at the Scottish Office who is responsible for education, in what the Secretary of State has described as the most thorough review in 25 years? Will the Scottish representatives on the review body take the opportunity to bring again to the attention of his Department additional living allowances for students at universities in cities London which have exceptionally high living costs? In the Scottish contest I think particularly of Aberdeen for obvious reasons. Will the review consider the potential for extending the principle of additional living allowances beyond London to other cities in Britain?

Mr. Baker: Clearly the review body will examine such points. I assure the hon. Gentleman that a Scottish Minister will be involved. There are often many things that we can learn from the Scottish educational system.

Mr. Patrick Thompson (Norwich, North): Having pressed for this fundamental review on student finance, I should like to join many of my hon. Friends who welcome it. That welcome will also be reflected in Norwich where the fundamental review is very much required by those involved in the university of East Anglia and elsewhere. Does my right Friend agree that higher education is so vitally important that we must attract finance into it in all possible ways? Does he agree that in the fundamental review we must try to find alternative ways of getting finance into higher education for the benefit of young people so that the endless wrangling with the DHSS over finance may cease?

Mr. Baker: I hope that one of the prizes that will come out of the review will be a fundamental examination of the inter-relationship of student support with the financing of universities, polytechnics and institutes of higher education. One of my ambitions is to increase the participation of 18 and 19-year-olds in higher education. We have done very well since 1979 with a further 80,000 full-time students. I want to see progress above that figure.

Mr. Tam Dalyell (Linlithgow): Having two children on four-year courses at Edinburgh university, may I ask the Minister what is the objection to either he or the Under-Secretary reading out the written answer so that the Scots may question him on it?

Mr. Baker: That is not a matter for me. I have tried to answer as well as I can. As regards universities, of course I have responsibility for those in Scotland.

Mrs. Edwina Currie (Derbyshire, South): Does my right hon. Friend accept that his statement about the review will be very welcome on this side of the House, and that many of us wish it more luck than the last one? Does he agree that it is extraordinary that the main form of finance for students comes as non-returnable grants from the state? Is it not time tha we exploited other areas of society and in particular future employers? Should we not encourage them to take more interest in and to give more financial support to students whom they will be recruiting later?

Mr. Baker: I have sympathy with that approach. Many companies—larger and medium-sized ones for the most part—have sponsorship schemes and sponsor students in one way or another both at first degree and at post-graduate level. That is one area where I hope that the review body will be able to see an expansion of involvement of other sources of finance.

Mr. Andrew F. Bennett (Denton and Reddish): May I congratulate the Secretary of State on maintaining the tradition of his predecessors—every time the heat is on student grants, they set up an inquiry? He will recall that, when the Prime Minister was in opposition in 1978, she promised students a fundamental inquiry. The right hon. and learned Member for Warrington, South (Mr. Carlisle) set the hon. Member for Brent, North (Dr. Boyson) on to a grants review in 1982. When it failed to come up with proposals for loans, it was quietly abandoned. The right hon. Member for Leeds, North-East (Sir K. Joseph), when under pressure 18 months ago, set up a review of student grants which was quietly abandoned when the pressure was off.

What guarantee is there that this review will be carried through? What will the timescale be? We were assured on all of the previous occasions that I have described that the fundamental work and the collection of information had been done. May we have a rather shorter timescale? Will the right hon. Gentleman include in the review mature students and access courses for mature students? If the Secretary of State for Social Services does not know how many winners and losers there are in the propsoals, does the right hon. Gentleman, because last time around, even the Prime Minister could answer a question about that?

Mr. Baker: The review body will have to consider the implications of its findings for mature students. I have already been frank with the House about the time. I think that the body will report next year. As for the certainty of the review, I have announced it at the Dispatch Box of the House of Commons and it will happen.

Mr. Dalyell: On a point of order, Mr. Speaker.

Mr. Speaker: Order. We are still in the middle of questions on the statement. We have a ten-minute Bill, another statement and an important debate ahead of us. Some of the hon. Members who are rising in their places wish to take part in that debate. I shall allow questions on

[Mr. Speaker]

the statement to continue for another five minutes, during which I hope that most hon. Members who are rising in their places will be called.

Mr. Dalyell: On a point of order, Mr. Speaker.

Mr. Speaker: I shall take the point of order at the end of the statement.

Mr. Dalyell: My point of order arises out of the statement.

Mr. Speaker: I shall take it at the end of questions on the statement.

Mr. Michael Stern (Bristol, North-West): I join those of my right hon. and hon. Friends who have congratulated my right hon. Friend, especially on that part of his statement which puts student loans back on the agenda. Does my right hon. Friend agree that, to bring ourselves into line with what is regarded in the rest of the world as an acceptable level of student support, the grant element must inevitably fall?

Mr. Baker: The review body will have to examine that. It is quite true that there is a variety of means of support for students in other countries. In America, for example, support involves a higher element of loans, many of which are cancelled by the employer when the graduate is employed. The review body must examine that type of arrangement. I assure my hon. Friend that the review body will deal with the issues that he has raised.

Mr. Patrick Nicholls (Teignbridge): Does my right hon. Friend agree that the review will be especially welcome to those of us who have urged his Department to examine student grants? Does he further agree that that review must be conducted on the understanding that it is no answer to say that our system of student maintenance is better than that in any other country? The system is deteriorating, and something positive must come out of the review.

Mr. Baker: I think that I am right in saying that, since the student grant was established in its current form in the 1960s, it has steadily declined in real terms. There is pressure on whatever Government are in power, therefore. We need a complete overhaul of the system and I hope that that is what the review will lead to.

Mr. Christopher Chope (Southampton, Itchen): My right hon. Friend's announcement is excellent news for students, but does he agree that much damage has been done by the uncertainty of the past few months? Will he therefore give a deadline by which the review should be completed? Does he agree that to let it drag on, perhaps well into next year, would be damaging to students who are anxious about their future? Will he say that the review will be completed by Easter?

Mr. Baker: I am reluctant for obvious reasons to give a specific date for completion. The review must be thorough and take account of comparisons of many other countries. I expect the review to report during next year. I understand the urgency.

Mr. Peter Bruinvels (Leicester, East): Although I welcome my right hon. Friend's announcement, which is useful for all students, does he agree that British universities are the best in the world? Is it not therefore a privilege rather than a right for our students to go to university? Does my right hon. Friend agree that once students get to university they must aim to get qualified? If there was the incentive of a part grant, part loan system, would they not do even better?

Mr. Baker: I think that some would. Our best universities are certainly the best in the world, but my statement also refers to polytechnics, some of which are absolutely outstanding. I visited one in north Staffordshire last week, the computer department of which comes third after Imperial college and the computer department at Cambridge university. It is a great triumph for a polytechnic to get to that standard.

Mr. John Browne (Winchester): Is my right hon. Friend aware that this comprehensive review will be widely welcomed by students, centres of learning and industry? Is he further aware that loans will be welcomed? Does he agree that there is a real fear among students at a time of high unemployment about what will happen to the servicing of loans if the students are unemployed? Does he agree that such a loan should be on a soft basis — that debt service should be geared to future employment and salary levels?

Mr. Baker: Terms of loans and the extent of softness or the subsidy required will obviously concern the review. I understand what my hon. Friend says.

Mrs. Elaine Kellett-Bowman (Lancaster): Does my right hon. Friend agree that the softness or interest-freeness of the loan is not nearly as important as the fact that repayment should not start until salary levels reach a certain point, as that would avoid the reverse dowry on girls?

Mr. Baker: I accept the problem that my hon. Friend has described. One of the reasons why the review must consider practice in other countries is that they have considerable experience of operating such systems. It is not as if we are breaking new ground. There is plenty of experience to learn from on the continent and in America. That is why the review body must take full international comparisons into account.

Mr. Robert McCrindle (Brentwood and Ongar): In regard to inflation proofing, would I be unduly rash to assume that, between now and when the report is ready for implementation, student grants will increase broadly in line with the rate of inflation?

Mr. Baker: My hon. Friend is asking me to anticipate the discussions that I shall have later this year with my right hon. Friend the Chief Secretary to the Treasury. I think that I have shown good evidence of the token of the Government's concern today in that the level of grants for students who live away from home will be 4 per cent. higher this year, which is higher than the current rate of inflation.

Mr. Dalyell: On a point of order, Mr. Speaker. It may not be within your knowledge that the Parliamentary Under-Secretary of State for Scotland returned from his official visit to Mexico solely to be here for the statement on student grants, and for no other possible reason. As the Secretary of State referred in his statement to written answer, and as Scottish universities are affected rather differently, would it not have been at least sensible to have allowed the Under-Secretary of State to make a statement so that he could be cross-questioned on it?

STATEMENT ON SOCIAL SECURITY BENEFITS AND STUDENTS 17 JUNE 1986

With permission I would like to make a statement about social security benefits and students.

In January the Government published proposals which were a first step to channelling support for students more through the educational maintenance system rather than the social security system. I referred these proposals to the Social Security Advisory Committee and I am today publishing the Committee's report together with the Government's response to it. I am also laying before the House amended regulations which take account of their views and those of the Local Authorities' Associations and others expressed during the consultation period.

Mr Speaker, it remains the Government's view that in the long term it cannot be sensible that students should be subject to two separate but intertwined systems of support. It cannot be satisfactory to have students permanently dependent upon a system which is primarily designed for those who for various reasons cannot work rather than for those who have withdrawn voluntarily from the labour market to study. The vast majority of comments to the Social Security Advisory Committee supported the principle of rationalising student support. But at the same time three main concerns were expressed.

First, there was concern that the major change proposed to housing benefit - whereby the accommodation element in the grant would be taken fully into account when assessing housing benefit entitlement - would cause a wide range of losses. The Social Security Advisory Committee shared this concern while at the same time recognising the case in principle for the change. Although there is no doubt that the present rules treat students more favourably than other claimants, the Government is prepared to withdraw this proposal.

Second, there was concern that in relation to the withdrawal of housing benefit for accommodation left unoccupied in the summer vacation some students would not have time to change existing plans and commitments. We recognise their concern and therefore this measure will not take effect until the summer of 1987 as we accept that students who have already entered into rent commitments for this summer could face difficulties.

Third, there was concern about the position of students without an award who have begun their studies on the assumption that they would continue to draw benefit at the current level. We accept that we should protect the most vulnerable of these - existing students living away from their parents' homes. Those students will be treated as now for housing benefit - in respect of private rented accommodation in term time and the short vacations - up to 1 April 1988 or when their present course ends.

The remainder of the Government's proposals are largely unchanged. We shall remove entitlement to unemployment benefit and supplementary benefit in the short vacations when students are already provided for through the grant. We shall simplify housing benefit administration by averaging grant income for the whole of the grant - assisted period. Students in halls of residence will in future be able to claim housing benefit only during the long vacation for which there is no provision in the grant.

Our proposal to make a £36 additional increase in the grant still stands and is an important step to the long-term aim of shifting student support away from the social security system. Nevertheless the Government recognise that there are important issues to be discussed before making further progress towards this aim. This raises a question of a wider review of student support and this will be dealt with by my rt hon Friend the Secretary of State for Education in his statement shortly.

Our other proposals have been widely welcomed and will go forward.

- We shall extend help under the students dependants' hardship scheme to cover the full year for two parent families, as well as single parents.

- We shall disregard for housing benefit those parts of the grant which cover books and travelling expenses. This change will now take effect for the academic year 1987/88.

- We shall provide a firm legal basis for treating students' income from parental covenants so that it does not affect their claims to benefit during the summer vacation.

Mr Speaker, the Government's long-term aim of removing students from the benefit system has been widely welcomed and accepted in principle. It cannot be right that generations of students should be encouraged to depend on social security. We set out our proposals five months ago and we have responded carefully and constructively to the comments made upon them. I believe the proposals I have described today represent sensible steps towards rationalising provision for students, and reducing their dependence on benefits.

CONFIDENTIAL

CC B1

JF

DEPARTMENT OF HEALTH & SOCIAL SECURITY

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

Telephone 01-407 5522

From the Secretary of State for Social Services

Tim Flesher Esq
Private Secretary
10 Downing Street

17 June 1986

Prime Minister!
Content with this statement?
DRN
17/6.

Dear Tim

STUDENTS AND BENEFITS Yes mt

You have already received Rob Smith's letter of 16 June enclosing a draft of the statement his Secretary of State proposes making on a review of student support.

I attach a draft of the statement which my Secretary of State is due to make tomorrow on students and benefits.

Copies go to the Private Secretaries to the Lord President, the Chief Whips in the Commons and the Lords, the Lord Privy Seal, the Chancellor of the Duchy of Lancaster, the Foreign Secretary, the Chief Secretary, and the Secretaries of State for Education and Science, Scotland, Wales and Northern Ireland; also to Michael Stark and Bernard Ingham.

Yours ever
Giles

GILES DENHAM
Private Secretary

CONFIDENTIAL

DRAFT STATEMENT ON STUDENTS AND BENEFITS

With permission I would like to make a statement about social security benefits and students.

In January the Government published proposals which were a first step to channelling support for students more through the educational maintenance system rather than the social security system. I referred these proposals to the Social Security Advisory Committee and I am today publishing the Committee's report together with the Government's response to it. I am also laying before the House amended regulations which take account of their views and those of the Local Authorities Associations and others expressed during the consultation period.

Mr Speaker, it remains the Government's view that in the long run it cannot be sensible that students should be subject to two separate but intertwined system of support. It cannot be satisfactory to have students permanently dependent upon a system which is primarily designed for those who for various reasons cannot work rather than for those who have withdrawn voluntarily from the labour market to study. The vast majority of comments to the Social Security Advisory Committee supported the principle of rationalising student support. But at the same time three main concerns were expressed.

First there was concern that the major change proposed to housing benefit - whereby the accommodation element in the grant would be taken fully into account when assessing housing benefit entitlement - would cause a wide range of losses. The Social Security Advisory Committee shared this concern while at the same time recognising the case in principle for the change. There is no doubt that the present rules treat students more favourably than other claimants but we have no wish to penalise students. Accordingly the Government is prepared to withdraw this proposal.

Second there was concern that in relation to the withdrawal of housing benefit for accommodation left unoccupied in the summer vacation some students would not have time to change existing plans and commitments. We recognise their concern and therefore this measure will not take effect until the summer of 1987 as we accept that students who have already entered into rent commitments for this summer could face difficulties.

Third, there was concern about the position of students without an award who have begun their studies on the asssumption that they would continue to draw benefit at the current level. We shall protect the most vulnerable of these - existing students away from their parents' home - by deferring the proposal to treat them as having the grant accommodation element until April 1988.

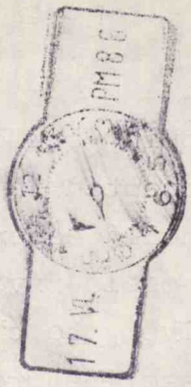
The remainder of the Government's proposals are largely unchanged. We shall remove entitlement to unemployment benefit and supplementary benefit in the short vacation when students are already provided for through the grant. Students in halls of residence will in future be able to claim housing benefit only during the long vacation for which there is no provision in the grant.

Our proposal to make a £36 additional increase in the grant still stands and is an important step to the long-term aim of shifting student support away from the social security system. Nevertheless the Government recognise that there are important issues to be discussed before making further progress towards this aim. This raises a question of a wider review of student support and this will be dealt with by my rt hon Friend the Secretary of State for Education in his statement shortly.

Our other proposals have been widely welcomed and will go forward.

- We shall extend help under the student dependants' hardship scheme to cover the full year for two parent families, as well as single parents.
- We shall provide a firm legal basis for treating students' income from parental covenants so that it does not affect their claims to benefit during the summer vacation.
- We shall disreard for housing benefit those parts of the grant which cover books and travelling expenses. This change will now take effect for the academic year 1987/88.

Mr Speaker, the Government's long-term aim of removing students from the benefit system has been widely welcomed and accepted in principle. It cannot be right that generations of students should be encouraged to depend on social security. We set out our proposals five months ago and we have responded carefully and constructively to the comments made upon them. I believe the proposals I have described today represent sensible steps towards rationalising provision for students, and reducing their dependence on benefits.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COVERING CONFIDENTIAL

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DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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

Telephone 01-407 5522

From the Minister of State for Social Security and the Disabled

Tim Flesher
Private Secretary
10 Downing Street
London SW1

17 June 1986

Dear Tim,

I attach a copy of the statement that my Minister will be making tomorrow afternoon following the two statements on Students.

I would be grateful if you could let me know by lunch-time tomorrow if there are any problems with it.

Copies go to the private secretaries to the Lord President, the Lord Chancellor, the Lord Privy Seal, the Chief Whips, the Secretaries of State for Social Services, Employment, Environment, Wales, Scotland, Northern Ireland, the Chancellor of the Duchy of Lancaster, the Chief Secretary and Bernard Ingham.

Yours ever,

Colin

C A H PHILLIPS
Private Secretary

DRAFT STATEMENT ON BOARD AND LODGING

With permission, Mr Speaker, I should like to make a statement on supplementary benefit arrangements for board and lodging, including residential care and nursing homes.

As the House knows, at the time when the main lines of the present system were put in place in April 1985, the government undertook to monitor its working carefully and to review the financial limits on maximum payments after a year. Following the subsequent decision to have a general social security up-rating in July 1986, it was thought sensible to defer any changes arising from the review until that time. Meanwhile, however, in advance of the outcome of the review, significant increases in the limits for residential care and nursing homes were brought forward alongside the previous uprating in November 1985.

I am placing in the library copies of reports on the extensive monitoring and statistical surveys undertaken by the Department since April 1985, together with four reports by the Social Security Policy Inspectorate and the full report commissioned from the consultants Ernst and Whinney on residential care and nursing homes. I have placed in the Vote Office copies of the Ernst and Whinney's own summary of their report, and of my rt hon friends response to the Social Security Advisory Committee's comments on the amending regulations made last November. In reaching our conclusions we have of course also taken account of the representations we have received from Members and from other individuals and organisations.

For ordinary board and lodging, our monitoring and surveys give renewed emphasis to the scale of the problems which led the government to act last year. [Insert figures of growth] They also confirm the existence of an accommodation market unduly influenced by the amount of benefit payable, rather than by normal commercial factors, and of an unacceptable degree of abuse. Many landlords have reduced their charges in response to the restraint imposed on benefit payments, and across the country, including London, average charges are close to average limits.

In view of this, and of the continued need to ensure firm control in this area of the benefit system, the government have concluded that no general increase in the financial limits for ordinary board and lodging, or in the associated meals allowances, is at present justified. This is also the case for hostels, where our monitoring showed that average charges in all regions including London were below the present limit.

We have however looked again at the current limit for couples, without young children, which is $1\frac{3}{4}$ times the single adult limit. This has been widely represented to us as unrealistic, and we have decided to increase it to twice the single limit.

Mr Speaker, it will not surprise the House to know that many of the representations to us have focussed not on the financial limits for ordinary boarders but on the limited time for which many of those under 26 can be paid as boarders at all. The regulations which came into effect on 24 November 1985 provided

for those paid as boarders at the time to be exempt from time limits until 28 July 1986. We now propose to extend that exemption indefinitely. New boarders under 26 will however continue to be subject to time limits, which we do not propose to change, unless they come within the extensive range of exemption categories designed to assist those for whom longer-term boarding is a genuine need.

I turn now to the limits for residential care and nursing homes. Following the November 1985 increases of £10 a week in the residential care limits and £31.40 in the nursing home limits, the evidence is that in general homes charging at or below the average will fall within the benefit limits - in several categories, well within. While there is therefore no clear case for an all-round increase in July in addition to last November's, we nevertheless think it right to make some further increase where the evidence suggests it is most needed, in the basic limit covering RESIDENTIAL CARE homes for the elderly. We propose that this should rise by £5 to £125 a week, making an increase of £15 a week overall since April 1985.

In addition, we intend to make five important changes to meet specific problems which we believe may be of greater significance than the limits for particular categories of home.

First, for those in residential care homes who become severely physically or mentally disabled after pension age, who are at

present limited to £120 a week, we propose an increased limit of £140 a week where they are in receipt of the higher rate of attendance allowance.

Secondly, for those who become blind after pension age, where the same limitation currently applies, we similarly propose to increase the limit from £120 to £140 a week.

Thirdly, for those in residential care or nursing homes in Greater London, we propose to increase the limits by a special extension of up to £17.50 a week.

Fourthly, for those whose benefit is being paid at a transitionally protected rate in July, we propose an addition of up to £10 above their protected rate. This is a departure from the normal conventions concerning transitional protection, but one which will I think be welcomed in all parts of the House.

Fifthly, for those who are away from a home for short periods, for example for a break or to maintain contact with their families, we propose new provisions to meet retaining fees.

Taken together, the changes I have outlined mean that, for example, the limit for a severely disabled elderly person in a residential care home in Greater London will rise by £37.50 a week. To assist the House, I am arranging for details of the new pattern of limits to be inserted in the Official Report.

Mr Speaker, these proposals are an important step towards the more flexible approach, but within a firmly-controlled framework, which is also the aim of the longer-term studies we are conducting with the local authority associations, in consultation with the private and voluntary sectors. Subject to the views of the Social Security Advisory Committee, we intend to embody them in regulations to take effect from 28 July.

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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

DN Gue
Discussed with PM 16/6
DSW
16/6

Tim Flesher Esq
Private Secretary
10 Downing Street
LONDON SW1

16 June 1986

Dear Tim,

Following the discussion at H on Friday 6 June and the exchange of minutes between the Lord President and the Prime Minister on 6 June and 9 June, I attach a copy of a statement that Kenneth Baker intends to make in the House this week on a review of student support. The statement will follow one on student benefits to be made by the Social Services Secretary.

I understand that the two statements are timetabled for Wednesday. I would therefore be grateful for clearance by close of play tomorrow, 17 June.

Copies of this letter go to the Private Secretaries to the Lord President, the Lord Privy Seal, the Chief Whips in the Commons and Lords, the Chancellor of the Duchy of Lancaster, the Secretaries of State for Social Services, Wales, Scotland* and to Michael Stark and Bernard Ingham.

Yours sincerely,

Rob Smith

R L SMITH
Private Secretary

* also the private secretaries to the Foreign Secretary, the Chief Secretary, and the Secretary of State for Northern Ireland

ORAL STATEMENT ON STUDENT SUPPORT

1. The measures just announced by my rt hon Friend the Secretary of State for Social Services ~~are a first step~~ make a return with towards a ~~new~~ system in which support for students should be provided through a single channel: the educational maintenance system. It is a limited step, taken in close consultation with my Department. I am, however, convinced from the representations made by Members of this House, by parents and by the institutions of higher education, and by the students themselves, that no further progress can be made towards disentangling students from the social security system without a wider examination of the whole structure of student support.

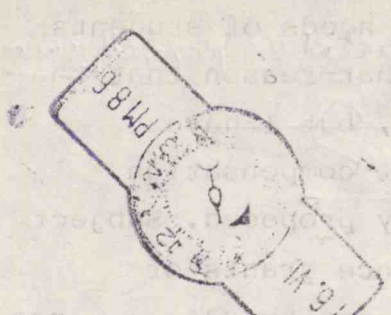
2. My rt hon Friend the Secretary of State for Scotland and I, in association with the Secretary of State for Social Services, have therefore decided to institute a comprehensive review of ~~the whole system of~~ financial support for students' ~~support~~. The review will be concerned with all aspects of the financial support of students in Great Britain studying at first degree or equivalent level. It will examine the maintenance needs of students and the extent to which they should be provided for from public funds, having regard to other actual and potential sources of support, including loans. [And it will involve a study of the arrangements made in other countries for the financial support of students.]

3. The study will be carried out under the chairmanship of my hon Friend the PUSS for Education and Science, the hon Member for Buckingham. The Scottish Education Department and the DHSS will be represented on it and the Education Departments of Northern Ireland and of Wales will be associated with it. The review will be carried out within Government. But we shall be open to representations and advice from every source, and shall undertake extensive consultations and consider international comparisons. The outcome of the review will itself be in the form of published proposals for public discussion and consultation.

4. Meanwhile the Government recognises the needs of students and the burden on their parents. It is for that reason that ~~the proposed removal of benefit has been mitigated, but I have nevertheless decided to maintain the level of~~ we have mitigated the proposed removal of benefit whilst maintaining the level of compensation through the grant system which was originally proposed. Subject to the agreement of Parliament, the maintenance grants of students living away from home will be increased by £36p.a. from the beginning of the academic year 1986-87. This will be in addition to the increase of 2% which my predecessor announced on 16 December and will result in an overall increase of 4% on present rates for students living away from home. This is higher than the current rate of inflation. A similar addition to grant will be made in Scotland, and the main rates of grant applicable to Scottish students are being given separately in a written answer by my rt hon Friend the Secretary of State for Scotland today.

5. Student numbers in higher education are at an all-time record level. We want still more to benefit. The Government stand by the principle of access to higher education for all those who can benefit from it, regardless of parental income. We want to ensure that students will neither be deterred from entering higher education nor handicapped in their studies by lack of means. But in doing so we must have regard to the claims on national resources. That is why I think the time is ripe to investigate with an open mind all possible forms and sources of support. I hope the House will welcome the review which I have announced today.

EDUCATION: Student Loans Pt 2



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CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

9 June 1986

Dear Joan,

REVIEW OF STUDENT SUPPORT

The Prime Minister was grateful for the Lord President's minute of 6 June reporting the outcome of the H Committee discussions about student support.

The Prime Minister agrees with H Committee that a review of student support is needed, and that the proposals made by the Secretary of State for Education and Science represent the best way of taking one forward. Preparations can now be made for an announcement.

I am copying this letter to the private secretaries of the members of H Committee and to Michael Stark (Cabinet Office).

Yours,

David

DAVID NORGROVE

Miss Joan MacNaughton,
Lord President's Office

CONFIDENTIAL

CJ2ABI

CONFIDENTIAL

PRIME MINISTER

REVIEW OF STUDENT SUPPORT

H this morning agreed to go ahead with the reductions in social security benefits for students. They also agreed Mr. Baker's proposal to pay £36 a year to students in higher grant as compensation.

They rejected Mr. Baker's proposal to link student grant to the GDP deflater. Indeed Mr. Baker has agreed to limit in due course the total amount of support to students through grants and social security together - but savings only arise when a new system comes into force (paragraph 5 of the Lord President's minute).

H further agreed that there should be an internal review of student support under Mr. Walden's Chairmanship but decided that it was for you to decide whether this should now be referred to Cabinet or handled in some other way.

The Lord President's private advice is that the review as proposed by Kenneth Baker could be accepted without going to Cabinet. I agree. mt

David Willetts is not convinced about the case for a review and proposes some sceptical questions that you might ask.

Do you want to:

- ✗ i) ask the questions proposed by the Policy Unit;
- ✗ ii) or call a small meeting (Lord President, Chief Secretary, Mr. Tebbit, Mr. Baker, Chief Whip);
- ✗ iii) or take it to Cabinet;
- ✓ iv) or accept the conclusions of H without further discussion? — Agreed mt

Martin Sarner

pp. DAVID NORGROVE
6 June 1986

CONFIDENTIAL

PRIME MINISTER 6 June 1986

REVIEW OF STUDENT SUPPORT

Most Ministers at H today had the same objective - to get students off grants plus benefits, and onto grants plus loans. Norman Fowler was shocked when he dined with members of the Oxford University Conservative Association and found that more than half of them were on Housing Benefit!

The Treasury, DHSS and DES have now agreed a package for getting students off some of their benefits. The savings are modest - £14m in 1986-87 and £23m a year thereafter. There will also be a sweetener of a £36 increase in the maintenance grant which will cost about £5m this year and £8m per year thereafter. The expensive benefits in the long vac. will remain. But Ministers are understandably cautious after last year's row on student maintenance. I recommend that you agree this package. Agreed NT

But what purpose will the proposed review of student support fulfil? It was originally intended to reduce the political impact of the benefit cuts. But the cuts are not as swingeing as originally planned. The Chief Secretary now hopes that the review will open up the possibility of further benefit cuts in the future. But you need assurance on the following questions:

i. The timetable is supposed to take the review out beyond the next Election. But we can expect a lot of public evidence to the review about the "meanness" of student support. Doesn't that mean that student loans and cuts

in student grants will become an Election issue? Will there not be powerful pressure to make expensive promises ruling out unpalatable conclusions?

ii. The premise on which everyone is working is that we need some government subsidy to get loans going. But the best device for encouraging loans may simply be the reduction in the value of student maintenance grant. I believe clearing banks are lending more to students than ever before. It might not be necessary to subsidise something which is growing naturally. And virtually any subsidised student loan scheme has high start-up costs before the money is paid back.

iii. Lord Hailsham has always had strong personal objections to loans. He may object to this proposed review which, as Viscount Whitelaw recognises, goes against last July's Cabinet decision that no further action should be taken on the then consultation document on student loans.

As the proposed review doesn't offer us any prospect of getting either further cuts in student support or a loan scheme in place before the next Election, I recommend that you ask Viscount Whitelaw, John MacGregor and Kenneth Baker to consider carefully the case for one.

David Willetts

DAVID WILLETTS

PERSONAL AND CONFIDENTIAL

PRIME MINISTER

REVIEW OF STUDENT SUPPORT

I am sending you separately a note, copied to H Committee members, reporting their discussion today and leaving to you the decision whether to put the question of a review to full Cabinet.

2. I thought I should let you know that my own view is that a review as tailored by Kenneth Baker could be accepted without going to Cabinet. The general feeling in H Committee, including John MacGregor, was that Kenneth had got it about right. But the decision must be for you.

(Approved by the Lord President and signed in his absence)

Privy Council Office
6 June 1986

PERSONAL AND CONFIDENTIAL

PRIME MINISTER

REVIEW OF STUDENT SUPPORT

On two recent occasions H Committee has considered how we should proceed towards our objective of moving students away from reliance on the social security system and towards the maintenance system specifically designed to meet their needs. Proposals for reducing students' access to certain benefit entitlements have been under consultation with the Social Security Advisory Committee and others for some months and in May Keith Joseph and Norman Fowler brought them to the Committee. Both Keith and Norman thought, however, that it would be extremely difficult to present these decisions without at the same time undertaking a review of student support and Keith felt that such a review would need to be a wide ranging exercise, under independent outside chairmanship, and very much focused on the question of loans.

2. Since Cabinet had decided in July last year (CC(85) 24.5) that no further action should be taken on the consultative document on student loans that had then been brought forward, and since the Committee was much divided on the wisdom of a review in independent hands, we postponed a decision and commissioned work to analyse the ways in which a study could be mounted in this field so as to avoid the risks that had been identified in discussion.

3. This morning, H Committee discussed the revised proposals that Kenneth Baker brought to us. On the immediate package of benefit disentitlements he had some additional proposals to make relating to student grants to improve presentation. A modified version of these, which was acceptable to both Kenneth Baker and John MacGregor, was agreed by the Committee and I do not think I need trouble you with that aspect.

4. As regards a review of student support, Kenneth is proposing a review under the supervision of a Minister (George Walden) somewhat on the lines of the Social Security Review that Norman Fowler and Tony Newton conducted last year. The intention of this is, of course, to keep the exercise firmly in the Government's hands. Kenneth feels that, if handled in this way, the timing of the exercise - which could be sensitive in the context of a general election - would remain under our control.

5. I attach the terms of reference that Kenneth proposes. As you will see they are wide ranging and are intended to enable a comprehensive overview of the whole of this politically difficult area. The question of loans is indeed mentioned but only as one possibility for topping up student grants. Most importantly - and this would need to be spelled out in or alongside the terms of reference - Kenneth also accepts that the amount of money available for student support should be the total of student grant available at the time plus a component equivalent to the present value of social security benefits claimed by students, once the entitlement limitations have been taken into account. He also accepts that no account should be taken of any future increased take-up or benefit uprating.

6. In the light of the earlier Cabinet discussion, H Committee considered that they could not decide this matter themselves, and I undertook to report their conclusion to you. I think it would be fair for me to say that the general feeling of the Committee was both that a review was needed, and that Kenneth's proposals represented the best way of taking one forward. We recognise, however, that it is for you to decide whether this should now be referred to Cabinet or handled in some other way.

7. I am sending a copy of this minute to the members of H Committee and to Sir Robert Armstrong.

(Approved by the Lord President and signed in his absence)

Privy Council Office
6 June 1986

REVIEW OF STUDENT SUPPORT - PROPOSED TERMS OF REFERENCE

To review the present arrangements for the financial support of students studying at first degree level or equivalent in England and Wales and to consider the future basis for such support, having regard to:

i. the situation and the maintenance needs of students, and the extent to which it is appropriate that those needs should be supported from public funds;

ii. other actual and possible sources of support which would allow the removal of students from the social security system - including the case for a system of loans to top up student grants, and the contribution of sponsorship to the needs of students on vocationally oriented courses;

iii. the Government's stated policies for higher education and access to it; and

iv. arrangements made in other countries with developed systems for the financial support of students.

PART 1 ends:-

DRN to PS/LPC 19.5.86

PART 2 begins:-

LPC to PM 6.6.86



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