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CABINET

REVIEW OF STUDENT SUPPORT

Memorandum by the Secretary of State for Education and Science

Colleagues will recall that, with their agreement, I announced on 24 January that the Secretary of State for Scotland and I, in association with the Secretary of State for Northern Ireland, would issue a Consultative Paper examining financial support for students in higher education. I have since given undertakings that the document would appear before the Summer Recess.

2. The attached draft of the consultative paper has been produced in consultation with colleagues most closely concerned. In concentrating on support at first degree level or equivalent, it fulfils the undertaking which I gave to Parliament in January. It argues that, in view of the benefits that graduates derive from their higher education, the present system does not effect a fair distribution of the costs between the students and the rest of the community; and that the high public cost of existing student support makes it difficult to address the system's increasing limitations. My own belief in the replacement of the present arrangements by a system centred on loans is no secret, but I have always stressed that it is personal and does not commit colleagues. The section (Section IV) on loans therefore forms the heart of the paper, but it is important that other possibilities be rehearsed (as is done in Section III) and that the passages on loans be appropriately tentative, in order to emphasise the genuinely consultative nature of the paper. It is also important to draw attention to the continuing very substantial subsidy which higher education attracts other than through the student support system - that is for tuition costs - and to emphasise that this will continue.

3. Although the paper is deliberately non-prescriptive on loans, colleagues whom I have consulted so far are agreed that one loan option should be described in some detail in order to focus public debate. The option illustrated envisages very mild terms designed, in particular, to ensure that those from low income families would not be faced with too heavy a repayment burden and would not be deterred from entering higher education. The point is made that the introduction of loans would, in time, release resources, some of which could be spent on improvements to higher education. I do not however consider that this and the mild loan terms would themselves be sufficient to convince many students and parents

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that a change from the existing grant system is justified. The described option therefore includes provision for a reduction of parental contributions by one third phased over ten years from the first year of the scheme. This should make the scheme more attractive to middle income parents, and appeal to students in making them less dependent on their parents.

4. I also draw colleagues' attention to the careful words of paragraph 8. We are in difficulties with Community law and there is a real prospect that we may have to offer support to students from the Community - especially those from the Republic of Ireland - on the same terms as to our own students. At this stage we ought to do no more than hint at this possibility publicly, but the option referred to in paragraph 13 - of limiting student support to general higher education courses - could prove the direction in which we might find it expedient to move.

5. Annexes C and D are for the information of colleagues and are not for publication.

6. In my statement on 24 January, I said that there would be a period of consultation following publication, after which the Government would announce any proposals for change. I should like now to set the period of consultation in train by publishing the attached document by the Summer Recess. Following a consultative period of four months, my aim would be to bring proposals to colleagues in the first part of next year.

7. I invite my colleagues' agreement to my proceeding with the publication of the document.

K J

Department of Education and Science

8 July 1985

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REVIEW OF STUDENT SUPPORT - CONSULTATIVE PAPER

INTRODUCTION

1. The Secretary of State for Education and Science announced on 5 December 1984 that the Government proposed to consider - and consult widely about - whether radical change in the student support system, which might include loans, should be made so as better to meet the needs of students and their families whilst safeguarding the interests of the taxpayer. It is the intention that this review should examine financial support for students in higher education, concentrating on support at first degree and sub-degree levels, but that tuition fees should continue, as now, not to be means tested.

SECTION I

THE EXISTING SYSTEM

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

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

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

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a threefold increase in the number of award-holders between 1962 and 1983/84. There has also been a threefold increase in the real level of public expenditure on student maintenance grants in the last 20 years. There are now about 450,000 award-holders, and public expenditure on their maintenance is expected to total some £530M in 1985/6(3). This excludes additional payments to students or their families through social benefits (around £130M) and tax concessions accruing through deeds of covenant (about £70M). There is in addition a much larger subsidy still which is given through the provision of free tuition. For example, the annual costs of each medical student are some £6,800 (that is over £40,000 per student for a typical six year course), while for engineering and science students they average around £3,800 (that is over £11,000 per student for a three year course, or £15,000 for a four year course) and for arts students some £2,800 (or over £8,000 per student for a three year course). The average annual cost of tuition is in the region of £3,500 per student and the aggregate cost in excess of £1,500M a year. This massive expenditure by taxpayers on higher education is distributed among only 1 person in 7 in the 18-21 age group in England and Wales (1 in 5 in Scotland).

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

5. The case for reform is highlighted by social changes since the 1960s. As long ago as 1960 the majority of the Anderson Committee recommended the abolition of the parental contribution. This was not accepted by the Government of the day and its retention has come under increasing criticism since then. The requirement in the present awards system that students should be financially

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

dependent on their parents until the age of 25 is also unpopular and out of line with the reduction in the age of adult responsibility from 21 to 18.

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

7. There is also a need to rationalise the relationship between student awards and social benefits. Students are currently eligible to claim social benefits, particularly in the long vacations which the mandatory award is not designed to cover. Student claims for supplementary benefit and housing benefit have risen sharply since the 1960s and up to perhaps one half of all students are claiming housing benefit and supplementary benefit during part of the year. The Government believes that in the long term it is right in principle to remove students from the benefit system, and to make any necessary support available under the awards system. This will need to be considered further in the context of any changes in the arrangements for benefits arising out of the Green Paper "Reform of Social Security".

8. Our membership of the European Community and with it the impetus towards mobility between Member countries - and particularly the mobility of students - is another dimension which should be taken into account. As our existing student support arrangements are very different from those of most of our Community partners, who operate schemes based at least in part on loans, there would be advantage in considering whether changes could be made which in the long run would make harmonisation easier. And the fact that loans are the dominant system of student support in these countries suggests that consideration should be given to the introduction of such a system here.

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

SECTION II

UNDERLYING PRINCIPLES

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

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

(4) Ibid, 1.2

(5) One means of measuring the contribution of higher education to the economy as a whole is the social rate of return of first degrees which, on the basis of certain assumptions, has in recent years been in the region of 5 to 8%. The private rate of return of higher education to the student is considerably higher than the social rate, even allowing for graduates' generally higher tax payments. (See Annex B of Cmnd 9524.)

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

SECTION III

POSSIBLE CHANGES TO THE EXISTING SYSTEM

12. Without embarking on large reforms of student support, there may be some scope for redeploying resources within its general framework. As noted in Section I, the parental contribution system has been the subject of some criticism. But it does at least provide a means of relieving the taxpayer of part of the cost of higher education. If the system were retained, consideration should perhaps be given to whether the basis of assessing parental contributions should be changed. The assessment of parental contributions on the basis of income before tax rather than as at present on "residual income" would undoubtedly simplify administration and procedures for parents. Some would argue that it would also be more equitable, since those parents already enjoying tax relief, eg on mortgage interest, would no longer derive a double benefit. But such a change would not be without its difficulties and would, in consequence, need careful consideration.

(4) Ibid, 1.9 and 9.4

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

13. Another area in which some adjustment to the existing system could be made is in the length of courses for which mandatory awards would be available. The Government is concerned at the extra costs of first degree courses which last for longer than three years (four years in Scotland).(4) One possibility would be to limit mandatory support to a set period rather than to a set (first degree) level. This could be fixed at three years - and four years in Scotland. Support might instead be limited to courses with a general educational content. This would not preclude a vocational orientation to higher education, but it would leave those wishing to undertake professional training to look to sponsors and potential employers, or to discretionary awards, for support. Subjects such as medicine and architecture, which comprise both general educational and vocational or professional training, could be supported by mandatory awards up to the point where the training began. Thereafter sponsoring employers (including the Government itself in some cases) would step in. Any approach on these lines would presuppose that the vocational and general educational elements of courses could be separately identified and the courses appropriately structured.

14. As noted in Section I, the Government believes that it is right in princip to remove students from entitlement to state benefits throughout the whole year.(7) One of the criteria to be applied in considering any new scheme of student support will be the extent to which it is compatible with this aim. In particular, arrangements will have to be devised to make available appropri assistance for those in need during the long vacations for which the awards system does not at present provide support. There is also clearly a case, on administrative grounds and in line with the Government's policy to remove students in general from benefit, for rationalising the several different systems of support for students' dependants.

(4) Ibid, 6.8

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

15. The existing awards system or any new scheme of support which is introduced could incorporate features designed to encourage trends which are considered to be desirable. For example, in contrast with most other countries, nearly 90% of students from England and Wales study away from home at an estimated additional cost of £80M; in Scotland some 60% leave home to study with extra costs of nearly £15M. If it was thought desirable to encourage students to study from home, the level of the grant or other support available could be based on the present home rate. However, such measures would need to be applied flexibly if students' ability to choose when and where to apply to study is not to be unduly impeded and to avoid adverse effects on participation in the sixth year in Scotland. Nor should they encourage students to rely more heavily on state benefits, thus running counter to the Government's general aim of removing students from benefits.

[Note omission of paragraph on bursaries and scholarships.]

16. One means of achieving a fairer distribution of the cost of higher education might be through a Higher Education tax (sometimes called a "graduate tax"). Under this approach every student would receive a maintenance grant not subject to parental contributions. In recognition of the benefit which students derive from the opportunity to undertake higher education, a tax would be levied on graduates' subsequent earnings. The tax period and rates could be balanced in a variety of ways but would be structured to earnings to ensure that those with low or no earnings paid less than the better off, or nothing at all. The main advantages of this approach would lie in equity, since payment for maintenance during higher education would be determined by future success, and in the removal of the dependence on parents. If full integration into the tax system could be achieved, it would be easy to secure repayments and to keep default rates to a minimum. There would, however, still be some scope for avoidance and evasion of the Higher Education tax - for example by artificially depressed earnings or through emigration. It is uncertain what the psychological impact on the will to succeed of an earnings related tax would be, but any potential disincentive must already exist in a progressive tax system.

SECTION IV

LOANS

17. The most widely canvassed alternative to the present system is one involving loans in whole or in part. This would be in line with practice in other countries and would be justified by the logic in Section II. It could also help to overcome some of the difficulties in the existing system mentioned in Section I. In particular loans could go some way to redistributing part of the cost of higher education which at present falls unfairly heavily on the majority of taxpayers who do not enjoy higher education or the lifelong advantages it can bring. A loan scheme could also benefit students and their parents, albeit less directly, insofar as it released resources which could be spent on improvements to higher education. Moreover, it would encourage young people to consider carefully and in the light of career opportunities the advantages and disadvantages of higher education and of the various institutions and courses open to them. This in turn could influence the type of provision and help to increase the quality and standard of our higher education.

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

19. Loans have already proved a practical proposition elsewhere. Indeed the UK system of student support, being based entirely on grants, is virtually unique in the western world. Although there is a great diversity of systems elsewhere, most countries support students through loans to a greater or lesser extent. The Federal Republic of Germany (FRG) switched in 1983 from a part loan/part grant-based system of student support to one based predominantly on 100% interest-free loans administered by the Federal Government. In Sweden, the small basic grant received by all students is supplemented by a loan, which now amounts to 90% of the total award. In the Netherlands, and in Denmark, higher grants are given than in Sweden but are substantially topped up by loans. Indeed, schemes involving loans to a greater or lesser amount are the rule rather than the exception throughout western Europe. Japan, too,

relies on loans for its students' support. The complicated Federal and State arrangements for student support in the USA also give prominence to loans, with limited value grants available for the most needy. Whilst the experience of these countries is such as to encourage us to look to loans as a possible way forward in the UK, caution is necessary in making international comparisons, since the interaction of the higher education, student support, social benefits and tax systems varies from country to country. The various aspects discussed in paragraphs 20 to 25 following will therefore need careful consideration before any decision can be taken.

20. Effect on participation - A consequence of giving students, through the introduction of loans, more incentive to consider carefully the costs and benefits of higher education might be that some would conclude that it was no longer worthwhile. Others might be deterred by the responsibility of servicing a loan. Some of these effects on participation would no doubt be transitory and would decline as loans became accepted as the normal means of financing support for students in higher education; employers too might adjust their patterns of reward to ensure that they could continue to attract the right number and kind of graduates. However, the impact on participation of the introduction of loans cannot be accurately predicted. Experience from other countries serves as only a limited guide, since the introduction of loans abroad has often been linked to policies opening up access to higher education for many for whom it would not otherwise have been available, and there is no precedent for a change from a universal system of grant as of right to one of loans. Nevertheless, other countries operating loans schemes have achieved high rates of participation in higher education. In the FRG 73% of students qualified to do so enter higher education: this is 18% of the relevant age range.(8) The experience of other countries also shows that many students are prepared to participate in higher education even without any grant or loan support. For example, in the USA and Canada around 50% of students receive no support. And a great many students contribute substantially to the financing of their higher education through part-time earnings, often in term-time as well as in the vacations. In Sweden 20% receive only the small basic grant, while under the relatively new FRG scheme over 60% of students fall outside the scope of the loans scheme.

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

21. Repayment requirements - Careful thought would have to be given to setting rates and periods of repayment at levels that were geared both to what the taxpayer could afford through Government expenditure and to the former students' ability to repay the loan. In some countries interest rates are charged but are subsidised compared with commercial levels. In the FRG no interest is charged unless there is default by the borrower; and good examination results can also reduce the amount to be repaid. Repayment periods may be quite short, for example 10 years in the USA. It is difficult to gauge what the optimum conditions for a UK system might be; but the more significant the shift towards loans, the milder the loans terms might be. For example, repayments might be spread over a long period and written off if not repaid by a certain time, no repayment might be required until some time after course completion or when earnings were low, and the outstanding debt might be revalued in line with inflation instead of being subject to a true rate of interest.

22. The extent to which loans would produce savings in public expenditure would depend in part upon the level of repayments. Inevitably there would be a wilful or negligent minority of defaulters the pursuit of whom might involve disproportionate difficulty and expense. Experience of other countries provides useful lessons on how a loan scheme could be tailored so as to minimise default at acceptably low administrative cost. And there is no reason to believe that experience in the UK would be very different from that abroad, namely that the great majority of students could be expected to meet their obligations. On this basis, the default rate might reasonably be assumed to average around 10%. One possibility of containing default without disproportionate cost might be to recover loan repayments through the tax system.

23. Although there could well be scope here for students reducing through part-time earnings their need to borrow, large debt burdens might prove especially hard to bear for students from poorer families - some 25% of university students are from socio-economic groups IV and V - who have hitherto been heavily reliant on grants and who would not have a ready made source of parental support to draw upon. Consideration would also have to be given to easing the terms of repayment for those raising families, students aiming at the less well-paid careers, and others on low incomes. One option might be to reduce repayments in years when income from all sources falls below average earnings (currently £170 per week gross). In order to avoid creating a new 'poverty trap' problem, repayments could be reduced on a sliding scale such that no repayments would be required if total income was, say, 85% of average earnings or less. Repayment of debts might also be based on individual, not marital, status and not be recoverable from spouses.

24. Longer courses - One potential difficulty with any loan scheme is the additional repayment burden on students on longer than average courses. In England and Wales the standard degree course is three years, but there are a number of courses, for example in the fields of medicine and veterinary science, which are considerably longer. A particular problem arises in Scotland where, because of the characteristics of the Scottish education system, Honours degree courses last for four years. One way round this difficulty might be a dual loans and grant system whereby a loan would be made available to all students to cover the cost of maintenance for three years with fourth or subsequent years covered by a grant awarded on the basis of existing schemes. Safeguards would of course be required to avoid abuses of the system, and an extended loan might be available for students who failed to fulfil the criteria for a grant for any additional year or years. Such an approach would however carry an extra cost, both in non-repayable grant and also in administration, since the awards system would have to remain in being alongside the new loan scheme. Other possibilities would be to be to build in softer repayment terms for the additional loans required for longer courses; sponsorship schemes, offered by potential employers including the Government, might also be considered.

25. Financing and administration of a loan scheme - In principle, responsibility for making the loans, monitoring repayments, authorising deferments, recovering from defaulters and writing off debts, might lie either in the public or private sector. The commercial banks are unlikely to be willing, without government guarantees, to take on the financing of a loan scheme which would be available as of right to all students qualifying for admission to higher education, whatever the commercial risk. This right is central to the Government's proposals. The Government believes, therefore, that student support would need to continue to be publicly funded under a loan scheme. There might nevertheless be a role for financial institutions such as banks and building societies in the administration of a publicly funded student loan scheme, though experience in the United States has shown that such arrangements have attendant disadvantages. If on the other hand the administration were retained in the public sector, both the payment of loans and the collection of repayments might best be entrusted to a single central government agency, just as the Scottish Office is responsible for making mandatory awards to students in Scotland now. It might be possible to collect loan repayments through the tax system, although that would require further study. Preliminary estimates suggest that the additional cost of administering a student loan scheme, as compared with student grants, could be up to about £10M a year.

26. Practice varies in other countries. In the USA, reliance on government agencies has been minimised through the operation of a variety of schemes financed and administered by banks. However, the schemes are underwritten by the Federal Government which is faced with problems of escalating cost and unacceptable levels of default. In Sweden, the administration of the loan scheme passed from the banks to a state agency in the 1960s, partly because of the Government's determination to pursue bad debts and partly to maintain interest rate subsidies. A state run scheme also operated in the FRG and other European countries.

Possible Shape of a Loan Scheme

27. It will be clear from what has been said already that the Government has reached no conclusion for or against introducing a loan scheme. Nor will it do so until it has received all the responses to this document and considered the possibilities in the light of those responses. At the same time, it believes that it will be helpful to the conduct of debate on loans and their alternatives if it presents the outline of a particular loans scheme which it judges to represent a reasonable starting point for the debate. This scheme is based on the most straightforward option for the introduction of loans, which would be to substitute loans for the present grant element of the award. Clearly, this would be a major shift from the present arrangements and careful consideration would need to be given to ways of mitigating difficulties which might arise. If compensating arrangements were not made, the effects on higher education participation and on loan take-up would, in particular, be uncertain and might differ between the less well-off and the more well to do. Very mild loan terms have therefore been illustrated in the scheme described below. Annex B gives examples of the repayment burden that would be faced by ex-students.

28. Loans would apply to new students only: thus students already on courses before the introduction of the scheme would carry on under existing arrangements. Under the scheme exemplified, loans would be available at current grant levels and would be repayable over 15 years beginning only after a two year period of grace following completion of the course. Repayments would also be reduced in years when income fell below average earnings on a sliding scale such that, at 85% of average earnings, repayments would be deferred. The effect of these concessions could be that up to half of graduates would not begin to repay until in their mid-twenties or later, and some graduates in lower-paid occupations might never have to make repayment at all. Any outstanding debts would be written off on retirement or death and, in any case, 20 years after the start of the repayment period.

29. No interest would be charged on the loans. Outstanding debts would be revalued in line with inflation and, to give protection were there to be years of high inflation, there would be a ceiling of 5% on the revaluation. Moreover, debts would not be revalued at all during study, grace or deferral years. These concessions would help make such a scheme much more attractive to potential borrowers than a scheme run on commercial lines; should help to minimise the effects on participation and take-up rates of a switch from grants to loans; and would address sympathetically the positions of those with low incomes and women bringing up families.

30. In addition, parental contributions would be reduced progressively by one-third from present levels over the first ten years of the scheme. Greater reductions would carry a prohibitive cost in the short-term, and in the longer term would limit the scope for other improvements to student support and to higher education in general. Nevertheless, a scheme which not only obviated further increases in parental contributions in real terms but also effected a one-third reduction would represent a major easing of the present burden on parents and go a long way to increasing students' independence. This desirable reform could be afforded, however, only through the savings made possible by loans.

31. The long-term, steady state, savings produced by such a scheme as outlined above would, on reasonable assumptions about inflation and take-up rates, probably lie between £200 and £250 million a year. However, it would be some 30 years before savings of this magnitude were achieved. In the shorter term, and over the first ten years of the scheme in particular, parental contribution reductions and loan concessions would account for much of the savings which might otherwise have been achieved and which might have been used to effect various desirable changes in higher education. Different loan schemes could, of course, produce greater savings which could be used to finance reforms along the lines noted in paragraphs 4-6 above, but only at the expense of less advantageous loan terms. For example, the repayment period could be limited to ten years, the grace period could be shortened, and the deferral arrangements made less generous. It would also be possible to charge a true rate of interest on the loan or to remove the concessions affecting study, grace and deferral years. These possibilities might, however, be considered too harsh, particularly for students who come from lower income families and who have hitherto had a full entitlement to grant.

SECTION V

CONCLUSIONS

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

33. As a basis for informed public debate, one possible approach to the introduction of loans has been illustrated in some detail in paragraphs 27-31. It is important to re-emphasise, however, that the Government is not committed to the introduction of a loan scheme; nor, if in due course it were to promote the introduction of a loan scheme, would it necessarily then advocate this particular scheme.

34. It would welcome the widest possible public debate on the ideas put forward in this paper, and invites comments to be submitted to the Department of Education and Science (Room) or to the Scottish Education Department (Room) or to the Department of Education for Northern Ireland (Room) by 30 November 1985.

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

England and Wales

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

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

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

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

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

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

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

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

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

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

Scotland

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

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

*<u>Footnote:</u> All rates quoted are for the 1985-86 academic year.

ANNEX B

TABLE 1

REPAYMENT PROFILE

COURSE LENGTH: 3 YEARS

LOAN TO COVER 100% MAINTENANCE (PARENTAL CONTRIBUTION ASSESSED AT NIL)

Repayment Year	Revalued Debt £	Cash Terms Repayment £	Outstanding Debt £	Real Terms Repayment Value £
(3	1885		1885	
study	3864		3864	
years)	5942		5942	
(grace	5942		5942	
period)	5942		5942	
1	6240	416	5824	310
2	6115	437	5678	310
3	5962	459	5503	310
4	5778	482	5297	310
5	5562	506	5056	310
6	5309	531	4778	310
7	5017	557	4460	310
8	4683	585	4097	310
9	4302	615	3687	310
10	3872	645	3227	310
11	3388	678	2710	310
12	2846	711	2134	310
13	2241	747	1494	310
14	1569	784	784	310
15	824	824	0	310

NOTES:

(1) At 1985/86 prices the total loan would be £5655 (£1885 pa for 3 years: £1885 is the estimated average full value award, including allowances, for 1985/86).

(2) The debt is revalued only in repayment years. 5% inflation is assumed. Higher inflation would reduce the outstanding debt in real terms, because of the 5% ceiling on debt revaluation and the non-revaluation in study, grace and deferral periods.

ANNEX B

TABLE 2

REPAYMENT PROFILE

COURSE LENGTH: 3 YEARS

LOAN TO COVER 33% OF MAINTENANCE (PARENTAL CONTRIBUTION ASSESSED AT 67%)

Repayment Year	Revalued Debt £	Cash Terms Repayment £	Outstanding Debt £	Real Terms Repayment Value £
(3	628		628	
study	1287		1287	
years)	1980		1980	
(grace	1980		1980	
period)	1980		1980	
1	2079	139	1940	103
2	2037	146	1892	103
3	1986	153	1833	103
4	1925	160	1765	103
5	1853	168	1684	103
6	1769	177	1592	103
7	1671	186	1486	103
8	1560	195	1365	103
9	1433	205	1229	103
10	1290	215	1075	103
11	1129	226	903	103
12	948	237	711	103
13	747	249	498	103
14	523	261	261	103
15	274	274	0	103

NOTES:

(1) The effects of loans of less than 100% can be estimated proportionately from Table 1. The example above sets out in full the effects of a one-third loan. At 1985/86 prices the total loan would be £1885 (£628 pa for 3 years, assuming £1257 pa parental contribution).

(2) The debt is revalued only in repayment years. 5% pa inflation is assumed. Higher inflation would reduce the outstanding debt in real terms, because of the 5% pa ceiling on debt revaluation and the non-revaluation in study, grace and deferral periods.

ANNEX B

TABLE 3

REPAYMENT PROFILE

COURSE LENGTH: 4 YEARS

LOAN TO COVER 100% MAINTENANCE (PARENTAL CONTRIBUTION ASSESSED AT NIL)

Repayment Year	Revalued Debt £	Cash Terms Repayment £	Outstanding Debt £	Real Terms Repayment Value £
(4 study years)	1885		1885	
	3864		3864	
	5942		5942	
	8125		8125	
(grace period)	8125		8125	
	8125		8125	
1	8531	569	7962	404
2	8360	597	7763	404
3	8151	627	7524	404
4	7900	658	7242	404
5	7604	691	6913	404
6	7258	726	6533	404
7	6859	762	6097	404
8	6402	800	5602	404
9	5882	840	5042	404
10	5294	882	4411	404
11	4632	926	3706	404
12	3891	973	2918	404
13	3064	1021	2043	404
14	2145	1072	1072	404
15	1126	1126	0	404

NOTES:

(1) At 1985/86 prices the total loan would be £7540 (1885 pa for 4 years: £1885 is the estimated average full value award, including allowances, for 1985/86).

(2) The debt is revalued only in repayment years. 5% pa inflation is assumed. Higher inflation would reduce the outstanding debt in real terms, because of the 5% ceiling on debt revaluation and the non-revaluation in study, grace and deferral periods.

ANNEX B

TABLE 4

REPAYMENT PROFILE

COURSE LENGTH: 4 YEARS

LOAN TO COVER 33% OF MAINTENANCE (PARENTAL CONTRIBUTIO ASSESSED AT 67%)

Repayment Year	Revalued Debt £	Cash Terms Repayment £	Outstanding Debt £	Real Terms Repayment Value £
(4	628		628	
study	1287		1287	
year)	1980		1980	
	2707		2707	
(grace	2707		2707	
period)	2707		2707	
1	2842	189	2653	135
2	2785	199	2586	135
3	2716	209	2507	135
4	2632	219	2413	135
5	2533	230	2303	135
6	2418	242	2176	135
7	2285	254	2031	135
8	2133	267	1866	135
9	1960	280	1680	135
10	1764	294	1470	135
11	1543	309	1235	135
12	1296	324	972	135
13	1021	340	681	135
14	715	357	357	135
15	375	375	0	135

NOTES:

(1) The effects of loans of less than 100% can be estimated proportionately from Table 3. The example above sets out in full the effects of a one-third loan. At 1985/86 prices the total loan would be £2512 (£628 pa for 4 years, assuming £1257 pa parental contribution).

(2) The debt is revalued only in repayment years. 5% pa inflation is assumed. Higher inflation would reduce the outstanding debt in real terms, because of the 5% pa ceiling on debt revaluation and the non-revaluation in study, grace and deferral periods.

LOANS AND DISPOSABLE INCOME

	£	£	£
Gross salary	*8,000*	10,000	12,000
SINGLE PERSON			
Net salary after tax, NI, 6% superannuation	5,338	6,518	7,696
Mortgage repayments (net, assuming mortgage is 2 1/2 x salary)	1,920	2,400	2,880
Rates (notional)	400	480	560
Disposable income after tax etc, mortgage, rates	3,018	3,638	4,256
Loan repayments as percentage of disposable income (inflation 5% pa)	%	%	%
3 year 100% loan (£310 pa)	10.3	8.5	7.3
4 year 100% loan (£404 pa)	13.4	11.1	9.5
MODIFICATIONS FOR PERSON WITH DEPENDANTS			
Effect on disposable income of allowances etc for:	£	£	£
non-working wife	+375	+375	+375
each child	+365	+365	+365
BASIC LIVING EXPENSES (NOTIONAL)			
each adult	1,300	1,300	1,300
each child	780	780	780

EXAMPLES OF PROFESSIONAL SALARIES	£ 8,000	£ 10,000	£ 12,000
Teacher	Scale I - 5 yrs experience	Head of Dept - scale 3	Senior teacher/Deputy Head of small school
Civil Servant	EO - 2 yrs experience	HEO	SEO
University lecturer	newly appointed	age 27-28	early 30s
Chartered engineer (median figures)	age 24-25	age 27-28	age 30-32
Army		Lieutenant - 2 yrs in rank	Captain - 1 or 2 years in rank

AVERAGE GRADUATE EARNINGS

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

NOTES:

(1) Exemplifications are not given for those on salaries of £7,500 or less as these would be below 85% of average earnings and therefore, under the scheme, repayments would be deferred.

(2) Data on earnings is based on General Household Surveys and is for graduates in both full and part-time work.

ANNEX D

GRANTS REPLACED BY LOANS, WITH PARENTAL CONTRIBUTION REDUCED BY ONE-THIRD OVER 10 YEARS

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

ANNUAL INFLATION (%)	TAKE UP (%) *	YEAR (from Start of Scheme) 1	2	3	5	7	10	15	STEADY STATE (some 30 years onwards)
0	100	+3	+11	+25	+43	+30	-4	-129	-328
	80	-29	-52	-72	-58	-68	-96	-195	-354
	60	-60	-116	-169	-159	-166	-187	-262	-380
5	100	+3	+11	+25	+43	+35	+13	-83	-227
	80	-29	-52	-72	-58	-64	-82	-159	-273
	60	-60	-116	-169	-159	-163	-177	-235	-319
10	100	+3	+11	+25	+43	+41	+33	-24	-85
	80	-29	-52	-72	-58	-60	-66	-111	-159
	60	-60	-116	-169	-159	-160	-165	-199	-234

*This is difficult to predict, but a take-up rate of 100% is very unlikely.

NOTES (1) The loan scheme exemplied above is based on the following terms and assumptions:

- *(a) The student population is a constant 380,000 and all are on three year courses.*
- *(b) The estimated average full value award, including allowances, is £1,885.*
- *(c) Parental contributions are reduced from year 1 by 3.3% pa until year 10 (ie a total eventual reduction of 33%).*
- (d) Loans are for new students only - continuing students carry on under existing arrangements.
- (e) No interest is charged.
- (f) Outstanding debts are revalued in repayment years in line with inflation subject to a 5% cap and are not revalued in study, grace or deferral years.
- (g) There is a repayment grace period for all until the second year after course completion.
- (h) Repayment is deferred in years when earnings fall below 85% of average earnings.
- (i) Loans are normally repayable over 15 years after the grace period.
- (j) Debts are written off on death or retirement or after 20 years after the grace period.
- (k) 10% of repayments are defaulted.
- (l) Administration costs are excluded.

(2) The table does not show the cost of avoiding a poverty trap by allowing graduated repayments for those with between 85% and 100% of average earnings. Information on income distribution makes costings hazardous but such a sliding scale for repayments might reduce steady state savings by around £25-40M.

(3) The revaluation concessions ((f) above) make the public expenditure effects sensitive to inflation levels (apparent once repayments become significant). They have been costed using data relating only to earnings, although in practice the scheme would take account of all income. However, the effect of this on the costings is likely to be minimal.