E.R.

PRIME MINISTER

Please include in weekend box 2

Student Loans

Attached is an H paper by the Secretary of State for Scotland which opposes student loans on general political grounds, as well as on particularly Scottish grounds. For example, the four-year degree course, common in Scotland, would require students to repay a third more than students in England.

TIM FLESHER
8 March, 1983

STUDENT LOANS

1. In September 1981, the Secretary of State for Education re-opened the issue of student loans. H Committee had in March 1981 rejected his predecessor's proposal to develop such a scheme the previous year; objections from colleagues had come from two directions: Treasury had opposed the short term cost of a scheme which contained 'sweeteners'; others had opposed the concept.

2. The new Secretary of State believed that important philosophical and long-term political gains, as well as long term public expenditure savings, would flow from the establishment of the principle of loans and that these gains would be worth buying with considerable short term expenditure. Early discussions at Ministerial level with Treasury showed Ministers there to share his belief. The relevant junior Minister at DES had also come to support the concept of loans, partly because he shared the Secretary of State's view of some of the long-term social and political gains, partly because he saw no prospect of making any improvements to the student support system, for example on the parental contribution or wider access, while the system remained so expensive.

3. Throughout 1982 therefore work continued on a scheme. DES Ministers made no secret of this. In higher educational circles acceptance of a loan concept began to gain ground; the Labour Party education committee were against it only by a majority; participants in the Leverhulme seminar chaired by Sir Kenneth Berrill were in favour by a majority; the Policy Studies Institute produced a powerful pamphlet arguing in favour.

4. During 1982 CPRS looked at radical reformation of higher education and suggested that economic fees for courses should be charged, for which some might have to pay by loans. The DES scheme is concerned not with fees, which the State would continue to provide, but simply student maintenance, which amounts to much the smaller part of the total cost of a student to the taxpayer. The leak of the CPRS paper however confused the discussion and aroused further opposition to loans as a concept.

5. The result of the DES work is the present H Committee paper and its annex. It summarises at (a) to (f) on page 1 the general DES arguments; the annex describes a scheme.

In summary, the scheme:

- makes half student maintenance repayable with unsubsidised interest rates, but various privileges for deferral, over a fifteen year period;

- lands the average 3-year-course student with an estimated debt of something over £3,000 to be repaid on various different repayment profiles starting two years after graduation;

-halves parental contributions, gives mandatory awards to those at present on discretionary awards, and brings down the 'age of independence' for students from the present 25 to 21;

- saves in the long term nearly £250m per annum.

6. Very considerable opposition remains, inside the party and outside, to such a scheme. In particular, critics will say:

- the scheme will discriminate against the poorest, since those now on full grant will have to pay back half like anyone else;

- the scheme would land the highest qualified group of young people with a new disincentive comparable to a new tax; those such as doctors, many engineers, and those in Scottish universities who do longer than average courses, will have bigger debts;

- it is argued that well qualified people who are successful already pay for HE with higher taxes;

- all opposition parties would attack the scheme and promise to reinstate the loans as grants; this might mean very high levels of politically supported default, above that assumed in the H paper (10%).

7. There are also those in our own party who simply reject the value of the philosophical gains set out in the H paper.

8. Some of these points may be more or less answered by pointing to the fact that no other country operates wholly by grants as we do, and most do better than us in bringing people into higher education. Other counter-arguments include the fact that our low level of working class participation in HE reflects low working class post-16 schooling rates and has little to do with student support arrangements; that high earners who did not enjoy full-time HE (Clive Sinclair, Austin Bide) pay the same tax rates as those who did; and that anyway we intend further to cut disincentive taxes on high earners.

9. The fact remains that a formidable alliance of those concerned about clever children from poor backgrounds, about new burdens on the present predominantly middle class users of HE, and those with university or polytechnic constituencies would ensure a battle over the proposals which would have costs. DES Ministers do not under-rate this, but believe that the three positive elements in the package, and quite widespread if not very vehement support amongst the general public, provide a substantial ground from which to counter-attack.

10. Some opposition might be blunted by more sweeteners. The

annex to this paper outlines at A some options. The costs of these are listed. It may be doubted whether any of these would necessarily buy off the determined opponents, though abolition of the remaining parental contributions in the H paper scheme would considerably blunt 'middle class' opposition.

Option B certainly would still opposition. It is, in effect a cheap way (in the medium term) of simply abolishing the parental contribution element of the present system. If money were to be spent (about £40m in the steady state) on inserting the principle of loans into student support, this is the simplest way of doing it and being popular. Short-term costs are very great (about £150m in the worst year).

Option C tries to envisage a national scholarship scheme to help the bright children of poor families. It is exceedingly difficult to make work.

11. Option D is a different kind of animal. It sketches one outline of a radical reformation of all post-compulsory school support; introducing a comprehensive system of not-very-generous support for all in post-16 education of whatever kind, for 3 years, plus topping up loans for HE courses. The three year's grant could be taken - or stored up - as suited the individual best. The short term costs are enormous, though the scheme is self-financing in the end. A scheme of such a nature would completely change the nature of the loans debate and would constitute a dramatic example of outflanking our opponents. It has considerable attractions, but would need enormous work to develop.

12. Loans schemes are very much in the air. Everyone knows that the Secretary of State is committed to one; his PUSS has abandoned his previous opposition for the reasons explained. We cannot do nothing. If we simply go on saying that we are considering schemes without commitment through the election period, we will be accused of contemplating schemes far more unpopular than we have in fact considered, and will be accused also of trying to avoid facing the electorate. To suppress discussion with a hidden intention of proceeding after the election would thus not only be dishonourable but also politically stupid. We have two simple courses, and just possibly one intermediate one.

1) Drop all schemes, and mean it (though some will not believe us);

2) Produce a scheme in detail and defend it; in the time available this could only be the H paper scheme whether sweetened further or not, or could be the popular but expensive option B (replacing parental contribution by loans);

3) Publish a discussion paper of a futuristic kind on some

radical scheme such as option D, which would keep the loan principle alive through an election but as part of a major reshaping of education support, a subject which the impact of MSC grants to their trainees on schools and colleges may anyway bring forward as time goes on. This would of course preclude early action, but would perhaps be a way of effectively dropping present schemes without wholly abandoning commitment to the principle of loans. It would on the other hand raise some expectation of eventual radical and expensive reforms which we might never be able to implement.

WILLIAM WALDEGRAVE
March 1983

A. MAKING THE H COMMITTEE PAPER LOANS PACKAGE MORE ATTRACTIVE

NOTE: PSBR effects are shown on the same basis as in the H Committee paper, and represent changes in the cost of the package of proposals set out in that paper (H Paper Annex, Section D).

OPTION 1: ABOLITION OF PARENTAL CONTRIBUTION

The package already reduces the yield from the parental contribution, by lowering the age of independence to 21 and by substituting non-means-tested loans for part of means-tested grants. This option shows the additional cost of doing away with the parental contribution altogether.

PSBR Effects

£m

YEAR 1	2	3	4	5	10	15	1982/83 Prices Steady State
+30	+65	+100	+100	+100	+100	+100	+100

OPTION 2: REDUCTION IN PARENTAL CONTRIBUTION BY £50m

This would allow the residual income threshold for the parental contribution to be raised from £6,600 to about £10,400 taking some 80,000 families out of contributing altogether in a full year and reducing the contributions for most other families.

PSBR Effects

£m

YEAR 1	2	3	4	5	10	15	1982/83 Prices Steady State
+15	+33	+50	+50	+50	+50	+50	+50

OPTION 3: RAISING THE VALUE OF THE GRANT

Raising the value of the grant by 10.4% would restore its value to something close to the 1978/79 level. This would have to apply to all students, not just those starting their courses after the new arrangements were introduced. It would have the following effect on the rates of grant:

	1982/83	Revalued by 10.4%
London	£1900	£2100
Elsewhere	1595	1760
Home	1225	1350
Average	1660	1830

PSBR Effects

£m

YEAR 1	2	3	4	5	10	15	1982/83 Prices Steady State
+59	+58	+56	+56	+56	+49	+41	+28

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B. A DIFFERENT LOANS SCHEME

An alternative to the 50:50 scheme described in the H Committee paper might be to retain means-tested grants for Higher Education as now, but to make loans available in place of the parental contribution. This would leave unchanged the grant entitlement of students from less well-off families but solve the problem of non-payment of parental contributions. The PSBR effects of such a scheme, incorporating also an extension of mandatory awards to all AFE courses and a lowering of the age of independence to 21, as in the H Committee proposals, might be:

1. Retaining the Minimum Award

£m — 1982/83 Prices

	YEAR							
	1	2	3	4	5	10	15	Steady State
1. Retaining the Minimum Award	+59	+106	+153	+153	+153	+127	+97	+49
2. Abolishing the Minimum Award	+58	+106	+152	+152	+151	+124	+91	+40

NB. These PSBR effects are as compared with present policies: they are in place of, not in addition to, those in the H Paper Annex.

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C. A NATIONAL SCHOLARSHIPS SCHEME

If it were considered that the H Committee paper loans scheme might deter bright children from poor homes from entering HE, a way of alleviating this (but not wholly removing it) might be to introduce some sort of National Scholarships Scheme, which could also have a wider role in encouraging the brightest children irrespective of home background to enter HE. Two possibilities which might be considered are:

1. A scheme which offered additional money on top of that available through the grants and loans scheme. The additional money might be awarded non-means-tested, solely according to academic merit: this would be likely to be of most benefit to middle-class children. Alternatively it might be means-tested, which would concentrate help on those from poorer homes but limit the scheme's wider usefulness as a spur to the brightest to enter HE despite the loans burden they would incur.

2. A scheme which substituted a non-means-tested grant for the loan element within a 50:50 system. This would be of more direct benefit to the impecunious bright child, restoring his position to what it is under the present system, but would also provide a "windfall" benefit to bright children from better off families.

In either case there would be very substantial administrative problems to contend with, whether the scheme was run through giving quotas of awards to individual institutions or nationally on a competitive basis.

The PSBR effects, in £m at 1982/83 prices as charges in the cost of the H Committee paper proposals (i.e., in Section D of the Annex) might be as follows:

I. A "top-up" Award of £500 per annum

(a) Non-means-tested

% of first degree students obtaining an award	YEAR 1	2	3 and thereafter
5%	+ 3	+ 6	+ 10
10%	+ 6	+12	+ 19
30%	+19	+38	+ 57

(b) Means-tested (to reduce cost by same % (c.24%) as present parental contribution system)

% of first degree students obtaining an award	YEAR 1	2	3 and thereafter
5%	+ 2	+ 5	+ 8
10%	+ 5	+ 9	+ 14
30%	+14	+29	+ 43

II. A NON-MEANS-TESTED AWARD IN SUBSTITUTION FOR THE LOAN ELEMENT WITHIN A 50:50 SYSTEM

% of first degree students obtaining an award	YEAR 1	2	3	4	5	10	15	Steady State
5%	0	+1	+2	+2	+2	+ 5	+ 9	+15
10%	+1	+2	+3	+3	+3	+ 9	+18	+31
30%	+3	+6	+9	+9	+9	+28	+53	+91

NOTE: 5%, 10% and 30% of first degree students respectively correspond very roughly to those with 15 UCCA points ('A' level grades A,A,A), 14 points (grades A,A,B) and 11 points (grades B,B,C).

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D. A POST-COMPULSORY EDUCATION BENEFIT

NOTE: No work has been done on the consequences for individuals and for the education system of introducing a system of the kind outlined below: it is merely an illustrative, simplistic outline construct, with costings based on a range of heroic assumptions, and taking no account of things like the position of those on HE courses lasting more than 3 years or variations in the number of weeks' attendance required.

1. Financial support for students in full-time NAFE, particularly at ages 16-19, is in a mess. There is a feeling in some quarters that HE students are treated very generously at the expense of those in NAFE. A radical re-shaping of student support arrangements for post-compulsory education generally might be widely welcomed.

2. One not particularly generous approach might be to replace all existing educational support arrangements (other than at postgraduate level) with a scheme along the following lines:

(a) An entitlement for all to 3 years fairly toughly parental means-tested grant at a modest flat-rate level (say £800 per annum, equivalent to £20-25 per week, as compared with the single non-householder rate of £23.65 which is not dependent on parental income) for full-time study post 16 - to be taken whenever a person wished and tenable in schools, NAFE or HE (nb, it is assumed that this would not replace MSC allowances, which are at higher levels and are non-means-tested).

(b) An additional entitlement for full-time HE courses only to a non-means-tested loan of up to the present value of the mandatory award, on the same terms as in the H Committee paper. Where the grant entitlement was not used in HE, the loan would cover the full value of the award; otherwise it would top-up the grant to that level. (The effect of this would be to significantly increase the repayment burden illustrated in the H paper in many cases).

3. The PSBR effects (£m: 1982/83 prices) of a scheme of this kind as compared with present policies might look something like the following:

I. If all going into HE used up 2 years of grant before entry

	YEAR							
	1	2	3	4	5	10	15	Steady State
Schools/NAFE	+220	+340	+350	+350	+350	+350	+350	+350
HE	+ 15	+ 25	+ 30	+ 75	+ 75	- 20	-165	-375
ALL	+235	+365	+380	+425	+425	+330	+185	- 25

II. If all going into HE use their 3 years grant there, supporting themselves before entry

	YEAR							
	1	2	3	4	5	10	15	Steady State
Schools/NAFE	+155	+205	+215	+215	+215	+215	+215	+215
HE	+ 15	+ 25	+ 30	+ 30	+ 30	- 35	-120	-250
ALL	+170	+230	+245	+245	+245	+180	+ 95	- 35

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Assumptions

1. In all cases where grant is given it equals £800 per annum, and is means-tested in such a way that two-thirds of the total cost is met from the public purse. The means test would have to be a tough one to provide adequate scope within the resources available for maximum award-holders and for independent students.

2. The scheme applies only to those starting new courses after its introduction.

3. About £50m per annum is saved on existing maintenance awards in schools and NAFE.

4. Numbers of students in each sector: HE = 382,000; NAFE = 315,000; Schools = 440,000.

5. No changes in present participation rates are allowed for. A grant at the level proposed would probably produce a limited increase in NAFE and school participation, while the loan arrangements might depress HE participation.

6. The cost of loans is calculated on the same costing assumptions as for the H paper scheme (probably unrealistic in this context).

7. No potential savings in non-educational benefits have been taken into account.