

CONFIDENTIAL

OK

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

Prime Minister (2)

For information
MHA 17/6

PRESENT

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

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

Rt Hon George Younger MP
Secretary of State for Scotland

Rt Hon Nicholas Edwards MP
Secretary of State for Wales

Rt Hon Douglas Hurd MP
Secretary of State for Northern
Ireland

Rt Hon John Wakeham MP
Government Chief Whip

Lord Young
Minister Without Portfolio

Rt Hon Peter Rees MP
Chief Secretary

Mr Peter Morrison MP
Minister of State, Department of
Employment

Mr Tony Newton MP
Minister of State, DHSS

OFFICIALS PRESENT

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

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

SUBJECT

Review of student Support

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Distribution

Those present

PS/No 10

PS/Lord Chancellor

PS/Secretary of State for Trade & Industry

PS/Secretary of State for Social Services

PS/Secretary of State for the Environment

PS/Secretary of State for Employment

PS/Secretary to the Cabinet