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cc Sir R Armstrong
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 JFW
 CC BJ 25/9.

FROM THE SECRETARY OF STATE

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

BF | CF
 To await comments,
 JFW
 25/9.

25 September 1985

Jan Myrd.

REVIEW OF STUDENT SUPPORT

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

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

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

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

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

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

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

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

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

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

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Draft 13.9.85

REVIEW OF STUDENT SUPPORT - CONSULTATIVE PAPER

INTRODUCTION

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

SECTION I

THE EXISTING AWARDS SYSTEM

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

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

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

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

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

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

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

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

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

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

SECTION II

THE FUNDING OF CHANGE TO THE SYSTEM

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

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

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

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

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

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

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SECTION III

POSSIBLE IMPROVEMENTS IN THE SYSTEM

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

Wider access

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

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

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

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

Family contributions

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

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

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

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

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

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

State benefits

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

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

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

Simplification of allowances

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

Standardised provision

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

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

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

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

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

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

Graduate tax

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

Meeting the cost

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

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

SECTION IV

CONCLUSIONS

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

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REFERENCES

- (1) "Grants to Students" (Cmnd 1051).
- (2) "Higher Education Report" (Cmnd 2154).
- (3) All figures are for GB, unless otherwise stated.
- (4) "The Development of Higher Education into the 1990s" sections 4 and 6 (Cmnd 9524) [the HE Green Paper].
- (5) A discussion of "rates of return" to higher education is in "The Development of Higher Education into the 1990s", Annex B para 12.
- (6) "The Development of Higher Education into the 1990s", para 1.2.
- (7) "The Development of Higher Education into the 1990s" recommends that consideration be given to subsuming fees into the general funding of institutions (para 3.9). How this might be done has still to be considered.
- (8) "Reform of Social Security" (Cmnd 9517) [the DHSS Green Paper].
- (9) "The Development of Higher Education into the 1990s", para 6.8.

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STUDENT AWARDS

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

England and Wales

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

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

4. The award covers a student's maintenance, including a flat-rate sum for travel, and fees. For those resident in the parental home the basic maintenance grant is £1480.* For those living outside of the parental home it is £2165 for those in London, and £1830 for those elsewhere. Those receiving free board and lodging 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 assessed where parents' residual income is less than £8100. At £8100 a contribution of £20 is assessed; contributions

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

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

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

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

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

Scotland

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

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

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

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ANNEX B

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

STEADY STATE COSTS (p.a.)
£ million

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

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£ million p.a.

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

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£ million p.a.

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

Notes

- (1) These costs assume an increase in HE places. If there is no increase in award holders overall, and no increase in HE places, the cost of these changes will be nil. On the other hand, greater HE numbers would lead not only to the awards cost shown here but to even higher institutional costs, especially in the scientific and technological subjects.
- (2) Costing is very imprecise and conceals a wide range of uncertainty.
- (3) Some administrative savings are likely.

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ANNEX C

GRADUATE TAX

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

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

NOTES

- (1) Higher rates than 1p in the pound would produce higher annual yields on a pro rata basis. These savings could be used to finance the cost of improvements shown in Annex B. For example, a tax threshold of £9,000 pa (= current average earnings) and a rate of 1.8p in the pound would produce the £280M pa needed to phase out parental contributions completely over 40 years.
- (2) Calculations assume a steady flow of 110,000 England and Wales graduates per annum liable for the tax immediately after graduation.
- (3) Thresholds are for gross earnings: taxable income could be at least £2,200 pa lower depending on circumstances.
- (4) Earnings distribution is based on the latest General Household Survey figures (1982) for those working and having first degree, teaching, or other higher education qualifications.

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