Sir Robert Ar

DEPARTMENT OF EDUCATION AND SCIENCE

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FROM THE SECRETARY OF STATE

The Rt Hon Viscount Whitelaw PC CHMP
Lord President of the Council
68 Whitehall
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28 OCTOBER 1983

Dear Willie.

I enclose a paper in response to MISC 99's request to me on Wednesday.

You will see that my preference is for the phasing out of the minimum award and a more logical means test for the parental contribution. It can be defended robustly because it both asks those most able to do so to bear a significantly higher proportion of the maintenance cost of higher education and at the same time protects the position of the less well off who might otherwise be debarred from taking it up. Peter Brooke and I are ready to defend it in these terms.

Some of our colleagues, especially the Prime Minister, would prefer not to reduce the minimum award. But without its abolition it would be impossible to construct a package that would both yield the required savings and be defensible in educational terms.

You will note from paragraph 7 that the maximum impact of the package I propose on the higher income groups is of the order of £500-£600 a year. But no household is required to pay more than one contribution even if there are two or more children in higher education at the same time.

I am copying this letter to the other members of MISC 99 and to Sir Robert Armstrong.

Yours ever.

Keith

CONFIDENTIAL

STUDENT GRANTS

On 26 October the Group asked me to indicate how the agreed savings on student grants (£20m in 1984-85, £40m in 1985-86 and £50m in 1986-87) reflected in paragraph 2 of MISC 99(83)4 might be achieved.

2. Mandatory awards to students in England and Wales, payable to students on first degree and comparable courses, will cost over £600m this year. The elements of the system to be considered when looking for savings are:

(a) The main rates of grant.
(b) The minimum award.
(c) The parental contribution.
(d) The differential between the home and away rates of grant.
(e) The fees element of the award.

The savings which can accrue from incremental changes in each of these elements in isolation are illustrated in Annex A: simple addition of the savings, however, does not accurately reflect the results of deploying the elements in combination.

3. I think that one element in the package should be the abolition, immediately or in stages, of the minimum award of £410 paid to about 45,000 students whose parents have residual incomes - after deduction of allowances like mortgage interest - in excess of about £20,000. The minimum award was sharply increased by our predecessors in the late 1970s to provide some compensation for those well-paid parents, with children in higher education, who suffered a net loss when child benefit replaced

child tax allowances. But since then we have sharply reduced the higher marginal tax rates on earned incomes (eg from 83% to 60% at the very top) to the great benefit of this group. Moreover abolition of the minimum award would still leave those families concerned, in common with all others in receipt of mandatory awards, with free tuition in higher education, wholly at public expense, to a value of at least £2,500 a year.

4. Annex A shows that abolition of the minimum award would take us less than half-way towards the required savings. Annexes B, C and D illustrate various packages which would in different ways close the gap.

5. I do not think that any of them, or any variation of them, would be satisfactory. They all involve a further sharp reduction in the rates of grant themselves which have already fallen by nearly 10% in real terms since 1979. In particular packages which further reduced the value of the grant itself would affect most severely students from the poorer families whose opportunities in higher education we wish to increase. I have rejected them for this reason.

6. To my mind the right way to find the remaining savings is to steepen the parental contribution scale in its middle and upper reaches. At present no contribution is payable if residual income is less than £7,100; £1 in every £7 is payable between £7,100 and £9,000; £1 in £8 between £9,000 and £14,300; and £1 in £13 thereafter. This is a regressive scale beyond £9,000 and more so beyond £14,300. If the parental contribution were £1 in every £6 at all points beyond £9,000 and if we halved the minimum award next year and abolished it in 1985, we would save £25m (£5m more than I have so far agreed with the Chief Secretary) in 1984-85, £40m in 1985-86 and £50m in 1986-87.

7. This is the package that I recommended. Of course it would be unpopular with some of our supporters. Those with residual incomes, for example, of £12,000 would be expected to make a contribution of £770 instead of about £650; and those with residual incomes of £18,000 would be asked to pay about £1,770 instead of £1,220. Those at the very top would lose the minimum award of £410. But only one contribution is payable even if there are two or more children in higher education at the same time; and those families with residual incomes of under £7,100 - about average earnings - would not be affected.

CONCLUSION

8. I invite my colleagues to recommend to the Cabinet the abolition of the minimum award in two stages and the parental contribution scale set out in paragraph 6.

ANNEX A

PES 1983 : STUDENT AWARDS SAVINGS

A "READY RECKONER" OF AWARDS SAVINGS

		SAVINGS £m		
		1984-85	1985-86	1986-87
1	RATES OF GRANT			
	Revaluing by 1% less than the PES baseline in 1984-85 i.e. 4% instead of 5%	4	6	6
2	MINIMUM AWARD			
	Halving the minimum award (at present £410) in 1984-85, abolish it in 1985-86	6	18	20
3	PARENTAL CONTRIBUTION SCALE			
	Revaluing the scale by 1% less than the assumed increase in earnings in 1984-85	1	1.5	1.5
4	HOME/AWAY DIFFERENTIAL			
	Freezing London (£1,975) and elsewhere (£1,660) rates for new students only from 1984-85 (Home rate is £1,275)	5	25	50
5	FEES			
	Extending parental contribution into fees (at present £475) after abolishing minimum award.	8	12	12

NB Simple addition of these savings does not accurately reflect the results of deploying the items in combination.

ANNEX B

PES 1983: STUDENT AWARDS SAVINGS

LIMIT INCREASE IN RATES OF GRANT TO 2% IN EACH OF NEXT 3 YEARS AND ABOLISH MINIMUM AWARD

	1984/85	1985/86	1986/87
Savings Achieved	£25m	£45m	£55m
Savings Required	£20m	£40m	£50m

Under this option the real value of the grant would be reduced by 4% in 1984/85, 3% in 1985/86 and 2% in 1986/87, a cumulative fall of 9% over the three years which would bring the overall decline in the value of the grant since the Government first came into power up to 17%.

Advantages of this option are:

(a) it achieves the necessary savings,

(b) presentationally it bears on students rather than parents,

(c) it spreads the burden of savings across all students.

Objections include:

(a) it severely further depresses the real value of the grant below its present all-time low level,

(b) acting on the rate of grant affects particularly those from the poorest families, who cannot make up the difference (because it falls on families equally irrespective of their means, a decline in the value of the grant acts like an inverse means test). It would discourage able children from less well-off homes from considering higher education,

(c) by artificially distorting family perceptions of the resources needed by a student to pursue his course it would lead to inadequate family contributions and reinforce the growing trend for students to borrow from banks,

(d) it would affect the viability of some student residences,

(e) it would no longer be possible to maintain the policy position that the grant was intended to meet students' needs.

ANNEX C

PES 1983: STUDENT AWARDS SAVINGS

PROGRESSIVELY HALVE THE HOME/AWAY DIFFERENTIAL BY FREEZING THE LONDON AND ELSEWHERE RATES OF GRANT AT PRESENT CASH VALUES FOR NEW STUDENTS ONLY FROM 1984/85, AND ALSO ABOLISH MINIMUM AWARD

	1984/85	1985/86	1986/87
Savings Achieved	£20m	£40m	£65m
Savings Required	£20m	£40m	£50m

At present 90% of students study away from home. This option would represent a cumulative fall in the real value of their grants of 14% over 3 years.

Advantages of this option include:

(a) it achieves the necessary savings,

(b) the encouragement it would give to students to study near home could be presented as a deliberate act of educational policy.

Objections include:

(a) it could not be introduced as an expression of educational policy if at the same time reimbursement to students of their actual travel costs came to an end (the students making the biggest excess travel claims are those living at home and claiming in respect of daily travel to institutions),

(b) it would operate selectively to the disadvantage of students living in rural areas and those studying subjects where provision is concentrated in a small number of institutions,

(c) the pattern of HE provision has developed on the assumption that most students study away from home. The option would therefore:

(i) reduce the viability of student residences,

(ii) have unpredictable effects on a number of courses,

(iii) reduce students' freedom of choice of course and institution and impede the rationalisation of provision in higher education.

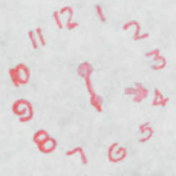
ANNEX D

PES 1983: STUDENT AWARDS SAVINGS

A COMPOSITE OPTION INVOLVING

(a) FREEZING THE PARENTAL CONTRIBUTION SCALE IN 1984/85
(b) LIMITING THE INCREASE IN RATES OF GRANT TO 3%, 3% AND 2% RESPECTIVELY IN THE 3 YEARS CONCERNED
(c) REDUCING THE MINIMUM AWARD FROM £410 TO £200 IN 1984/85 ABOLISHING IT IN 1985/86

	1984/85	1985/86	1986/87
Savings Achieved	£20m	£40m	£50m
Savings Required	£20m	£40m	£50m

Under this option, the real value of the grant would fall by some 7% over the 3 year period, bringing the overall decline since the Government first came to power to 15%. A further 15-20,000 parents would be brought into making contributions and the contributions expected from parents throughout the scale would increase. The minimum award would be abolished over 2 years.

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