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Prime Minister

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Some interesting alternatives
for you to ponder.

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I think we should put them
to K.T.

AT 4/11

STUDENT AWARDS - ALTERNATIVE PACKAGES

-ie. Oliver's letter

There are three serious possibilities, each of which achieves the required savings of £25 million in 1984/5, £45 million in 1985/6 and £50 million in 1986/7.

Compendium
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1. Sir Keith Joseph's Proposal

Sir Keith Joseph's proposal was as follows:

- (i) Halve the minimum award from £410 to £205;
- (ii) Uprate the value of the grant by 4%/3%/2%;
- (iii) Steepen the parental contribution scale to £1 in every £6 of residual income beyond £9,000;
- (iv) Revalue maximum level of income qualifying for full grant by 7%, 5.5%, 5%.

2. Treasury Package

The Treasury have offered a number of solutions, of which the most promising is:

- (i) Freeze minimum award at its present level;
- (ii) Freeze maximum grant in 1984/5, and raise it by 4% and 3% in the two following years;

/ (iii)

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- (iii) Revalue maximum level of income qualifying for full grant by 5%, 4%, 3%;
- (iv) Set parental contribution scale at £1 in £7 for all levels of income above £7,100.

3. Policy Unit Package

The advantage of Sir Keith's proposal is that it protects the poor - but it halves the minimum award overnight.

The advantage of the Treasury package is that it keeps the minimum award intact. But it hits the poorer students hard, since it gives them no increase at all in the first year. This would make us vulnerable to charges of inequity, and might turn many students against us.

It would be possible to steer between the two by adopting the following package:

- (i) Increase maximum grant over the three years by 3%, 2½%, 2%;
- (ii) Steepen parental contribution scale to 1:7 throughout;
- (iii) Instead of cutting the minimum grant from £400 to £200 immediately, reduce it more gradually - i.e. £300, £250, £200; over three years.
- (iv) Revalue maximum income qualifying for full grant by 5%, 4%, 3%.

/ This package

This package, though by no means perfect, has several advantages:

- (i) The minimum award declines less rapidly than in the DES Scheme, thereby offering some protection to middle-income families; those with incomes between £17,000 and £20,000 do particularly well in the first 2 years;
- (ii) The maximum grant is still increased at a reasonable rate, protecting the poorest;
- (iii) The scale of parental contributions is extremely simple, and not regressive.

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The whole package might, I think, be even more saleable if there were a removal of grant for parents with residual incomes above, say, £50,000. True, this would make the administration of the system slightly more complicated; but it would also make life more difficult for any Opposition spokesman who accused us of favouring the very rich.

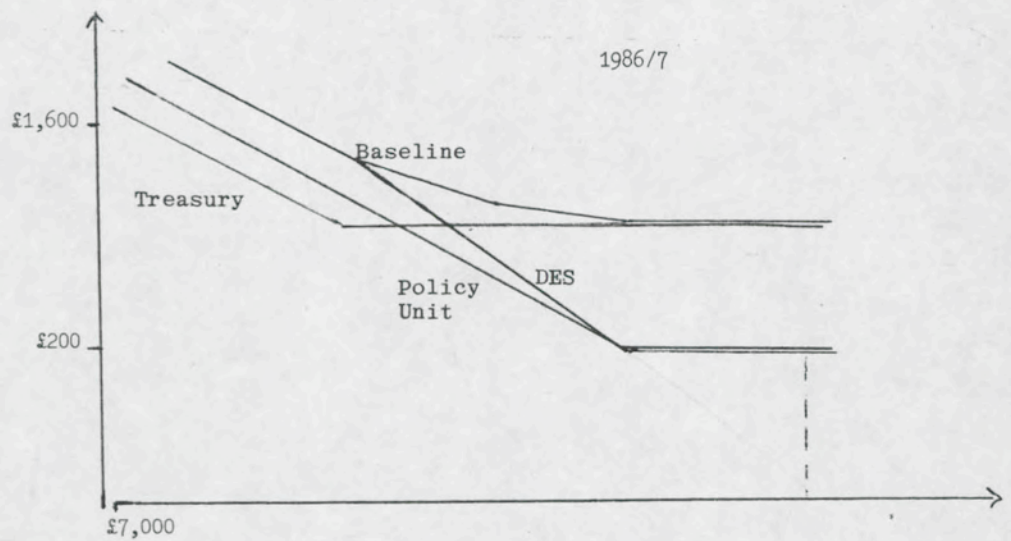
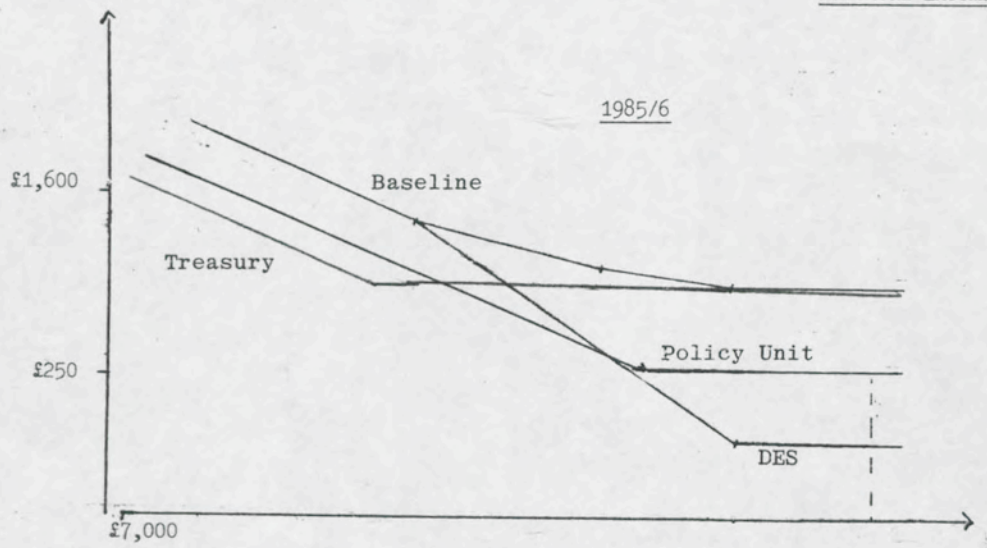
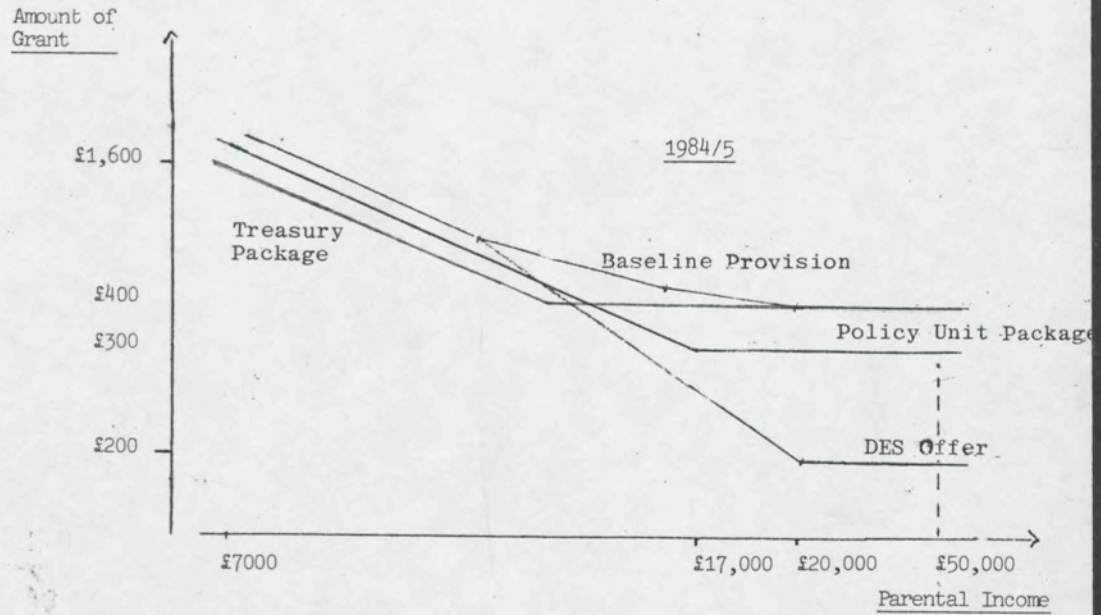
I attach a schematic graph (see Annex) which may make it easier to visualise the various possibilities.

For reasons of diplomacy, the Treasury and the Policy Unit have both avoided consulting DES officials and their computer. We have all been working on the basis of rough Treasury calculations, which would need to be thoroughly checked.

Oliver Letwin

4 November 1983

ANNEX : THE THREE OPTIONS - , PICTURED OVER THE THREE YEARS



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PUBLIC EXPENDITURE : STUDENT GRANT OPTIONS

Families with one award holder

Parental Contribution

Residual (note 2) Income	(a) Current position (1983/4)	(b) MISC 99 Recommendation	(c) Chief Secretary's Option
£	£	£	£
10,000	416	458	458
15,000	1008	1291	1291
20,000	1392	1810	1705
25,000	1665	1810	1705
30,000	1665	1810	1705

Families with two award holders (Note 3)

Residual Income	(a) Current position (1983/4)	(b) MISC 99 Recommendation	(c) Chief Secretary's Option
£	£	£	£
10,000	206	248	248
15,000	798	1081	1081
20,000	1182	1914 (Note 4)	1914
25,000	1567	2747	2747
30,000	1951	3581	3410

Conclusion: The difference between the MISC 99 recommendation and the Chief Secretary's variant occurs in practice only for 1 award-holder families with residual income in excess of £20,000 and 2 award-holder families with residual incomes in excess of £30,000.

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Notes:

1. Figures are based on a London student with £100 extra grant by way of allowances.
2. A rough translation into gross income can be made as follows:

income < £14,500	-	add £1000
income £14,500-£19,000	-	add £2000
income > £19,500	-	add £3000
3. Where a contribution is assessed for a family with 2 award holders, the Regulations provide for a £210 reduction in that contribution.
4. The number of families with 2 award holders and residual incomes over £20,000 is about 2,000; the bulk of these will have incomes below £25,000.