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CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY
SUB COMMITTEE ON LOCAL AUTHORITY FINANCE

STUDENTS AND THE COMMUNITY CHARGE

Memorandum by the Secretary of State for Education and Science

1 I share the misgivings expressed by the Chancellor of the Duchy of Lancaster over the proposals in the paper by the Secretary of State for Scotland for making students liable to the community charge. Student finance is an area of great political sensitivity. It is important that we do not propose a change in advance of our review of student support which will provoke strong opposition and may prejudice the chances of a favourable reception to the proposals for reform which will emerge from that review. I agree with the Scottish Secretary that, if students are to be liable, a means must be found of putting them in funds to meet the charge. But my strong preference would be for exemption, for the reasons set out below.

Students and their support: the present position

2 Students are not a homogeneous category. There are about 390,000 in higher education in England and Wales who receive mandatory awards from their home local education authorities. In addition, the students who would under present proposals become liable to pay a community charge include:-

- students in full-time further or higher education who receive discretionary awards from LEAs (60,000) or no state support at all (an estimated 65,000)
- 40,000 postgraduates, of whom 15,000 receive research council or DES studentships related to the mandatory level of grant.

3 The real value of the mandatory award for student maintenance has fallen 12% between 1978-80 and 1985-86, but this includes the parental contribution which has risen from 20% in 1979-80 to 37% in 1986-87. The net effect of these trends is that the average maintenance paid by the State has declined in real value by about 30%. To some extent this erosion of the value of student grants

has been mitigated by an increasing dependence on social security benefits, but the Government's policy is to withdraw all students progressively from the scope of social security arrangements. The first stage in the implementation of this policy, effective from the present academic year, will produce savings net of part-compensation through grant rising to £17 million in 1988.

4 In the longer term we stand committed to the educational maintenance system as the sole channel of support for students from public funds. The restructuring of the grant system with this objective will be considered by the Review of Student Support under Mr Walden's chairmanship. That review is also charged to consider the contribution of other sources of support for students, including loans.

The impact of the community charge

5 As noted in paper E(LF)(86)6, the community charge would represent a substantial new burden for students. We know that the element in the mandatory award for accommodation and board falls well short of meeting students' average needs. The imposition of this new liability would be seen as a further attack on students' living standards.

6 There could be no question of expecting students to meet this charge without additional support. Assuming support through welfare benefits is ruled out, we would have to put students in funds through the grant system. The only method consistent with our current grants administration is a flat-rate addition. This is the method which the Secretary of State for Scotland proposes for students studying in Scotland, at least for the short term. The Chancellor of the Duchy of Lancaster has identified the difficulties of this option: the net effect is that students do not on average contribute, but it involves a very substantial element of rough justice. The losers will protest strongly, and we will gain no credit from the winners.

7 Proposals for the community charge in England and Wales are at a less advanced stage, but the likely range of charges looks to be such that I do not believe that we could hold to the flat rate approach even if we were to introduce a higher rate for London students. We would need instead to make arrangements for relating the compensation received by students to the actual amount of the charge in each case. This would represent a significant addition to the grants system and would involve considerable administrative cost for both the levying and award-making authorities, and for my Department. Yet the net effect would be little different to a system where students were exempt; nothing would have been done to promote the Cmnd 9714 objective of increasing local democratic accountability.

8 In any case compensation through the grant system can benefit only those students who receive mandatory or postgraduate awards. Discretionary award holders would be dependent on the willingness of the LEAs to increase their grants. Students without awards would have to meet the charge from their own or their parents' resources. Students in these categories, and their parents, are already making

considerable sacrifices, often in order to take vocational courses to better their job prospects. An unrelieved liability to meet a community charge could well tip the balance and force them to discontinue such studies.

Cost to the Exchequer

9 It is the intention that mandatory awards should be fully financed from specific grant. Discretionary awards are financed partly through the rates and partly through Rate Support Grant. The cost of fully compensating students through mandatory awards would be about £80m which would score as public expenditure. Similarly, compensating recipients of discretionary awards would add £12m to public spending. The cost of compensating all award-holders (including postgraduates) in England and Wales would be about £100m; and, if a way could be found of compensating non-award holders, the additional cost would be about £13m. Less than full compensation, for example to take account of the fact that some students currently contribute towards rates, would cost correspondingly less. Exemption of all students would cost about £115m in revenue lost to local authorities. The significance of this loss for the balance between expenditure and revenue depends on whether students would otherwise be compensated for their liability to the charge. If they were compensated, both expenditure and taxation would be higher, but the effect on the Public Sector Borrowing Requirement would be similar to that of exemption.

Definition of the Exemption

10 I seek an exemption only for those students in full-time attendance what is meant by "full-time" will need to be spelled out. It may also be necessary to recognise or approve those educational establishments whose courses, if attended full-time, qualify a student for exemption. If the principle of an exemption is accepted, officials will need to study these questions urgently.

Conclusion

11 We cannot assume that students will have an income like other adults of their own from which to meet the new liability to the community charge. I agree with the Secretary of State for Scotland that, if we make them liable, we will have no choice but to put them in funds to meet it. The arrangements for compensation would need to be unique to students, since we have agreed that they will in future be outside the net of welfare benefits which will be the means of support for others on low incomes. Such arrangements would be administratively costly, and defeat the purpose of the community charge. There would remain significant numbers of students beyond the reach of compensation. I urge colleagues to agree that students should be exempted from the charge.

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Department of Education and Science

29 September 1986

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MEMORANDA

Serial No.	Date	Brief Description
6	12.9.86	STUDENTS AND THE COMMUNITY CHARGE Memorandum by the Secretary of State for Scotland
7	29.9.86	STUDENTS AND THE COMMUNITY CHARGE Memorandum by the Secretary of State for Education and Science
8		WITHDRAWN
9	29.9.86	INTRODUCING THE COMMUNITY CHARGE Memorandum by the Secretary of State for the Environment

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