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28 October 1988

CABINET

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TOP-UP LOANS FOR STUDENTS

Memorandum by the Secretary of State for Education and Science

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Following discussion in E(EP) on 27 October, I now seek the authority of Cabinet to publish a White Paper "Top-up Loans for Students" in the course of the week beginning 7 November. The latest draft is attached. Some minor drafting points are still being discussed by officials.

2. The essence of my proposals, as approved by E(EP) on 27 October, is that from October 1990 all full-time home students in higher education, other than postgraduates, will be eligible for top-up loans under the scheme described in the White Paper; at the same time they will be disentitled to claim social security benefits.

3. All other students now entitled to claim benefit will also be disentitled from that date. Three Access funds will be established to provide students with assistance on a discretionary basis. These Funds are described in paragraphs 3.21-3.25 of the draft White Paper.

4. E(EP) regarded it as of great importance that the scheme should be administered by the financial institutions. With the agreement of the Governor of the Bank of England and the Chairman of the Committee of London and Scottish Banks and of the Building Societies Association, a working group including representatives of the financial institutions, the Treasury and the Bank of England has been set up to examine and report on the mechanics of the scheme. A number of difficulties have been raised and, if Cabinet approves the publication of the White Paper, I propose to see the Governor and the Chairmen again in order to secure their assurance that the financial institutions will not criticise the scheme when it is published. In return I propose to assure them that we will listen carefully to what they have to say. Such an assurance is incorporated in paragraph 3.2 of the attached draft.

CONCLUSION

5. I seek the authority of Cabinet to proceed as recommended above.

K B

Department of Education and Science

28 October 1988

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28 OCTOBER DRAFT

TOP-UP LOANS FOR STUDENTS

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CHAPTER I: INTRODUCTION

1.1 To support its higher education policy, the Government has decided to introduce new arrangements for helping students to meet their living costs. The purposes of the new arrangements are:

- \* to share the cost of student maintenance more equitably between students themselves, their parents and the taxpayer
- \* to increase the resources available to students
- \* to reduce, over time, the contribution to students' maintenance which is expected from parents
- \* to reduce, over time, direct public expenditure on grants
- \* to implement the Government's decision to reduce students' dependency by removing them from the welfare benefits system
- \* to increase economic awareness among students, and their self-reliance.

1.2 To achieve these aims, the Government intends to top up students' resources with a loan facility. The loan will be available to all full-time home students gaining a place in higher education, except post-graduates. It will be over and above the present means-tested maintenance grant and the parental contribution. Over time, the proportion of students' resources to be financed by loan will increase.



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1.3 In brief, the arrangements that the Government proposes are as follows:

- \* from academic year 1990-91 a loan facility at nil real interest of £420 (average) in a full year and £310 in student's final year
- \* the parental contribution and grant to be held steady in cash terms from academic year 1990-91
- \* the loan facility to be increased each year, to take account of this reduction in real terms in the parental contribution and the grant
- \* the loan facility to continue to be increased until it is equal to the value of the grant and parental contribution taken together
- \* recoupment of the loan will be deferred when a graduate's income is low.

1.4 In addition:

- \* full-time students in further and higher education will, from academic year 1990-91, no longer be eligible for income support or unemployment benefit in the long vacation, or for housing benefit during the period of their course, in line with the Government's policy announced in the 1985 White Paper on Social Security reform
- \* disabled students and students who are single parents will remain eligible for benefits, and support for students' dependents will also continue



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\* the Government will establish three Access Funds, each of £5 million a year, to provide discretionary support, in individual cases of financial need, for students losing their entitlement to benefits:

i for undergraduates within the scope of the new loans regime

ii for post-graduates

iii for students in further education.

1.5 The Government will introduce legislation to bring about these changes in the 1989-90 Session of Parliament.



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CHAPTER II: THE CASE FOR CHANGE

2.1 The present system of support for students' living costs was introduced in 1962. It had its origin in the work of a committee chaired by Sir Colin Anderson, which reported in 1960<sup>1</sup>.

2.2 Under this system, students' living costs are supported from two principal sources: grants from public funds; and contributions from students' parents or spouse, or from students' own income. Contributions account for about 39% of the total, while taxpayers and ratepayers fund about 61% of the living costs of students receiving mandatory awards<sup>2</sup>. The present system of student support is outlined in Annex A.

Growth and development

2.3 The Anderson Committee envisaged an eventual expansion of the higher education system to perhaps 175,000 students. In practice, the expansion has been far greater: in the 1987-88 academic year some 400,000 students were receiving mandatory awards. Chart 1 shows this growth.

Chart 1

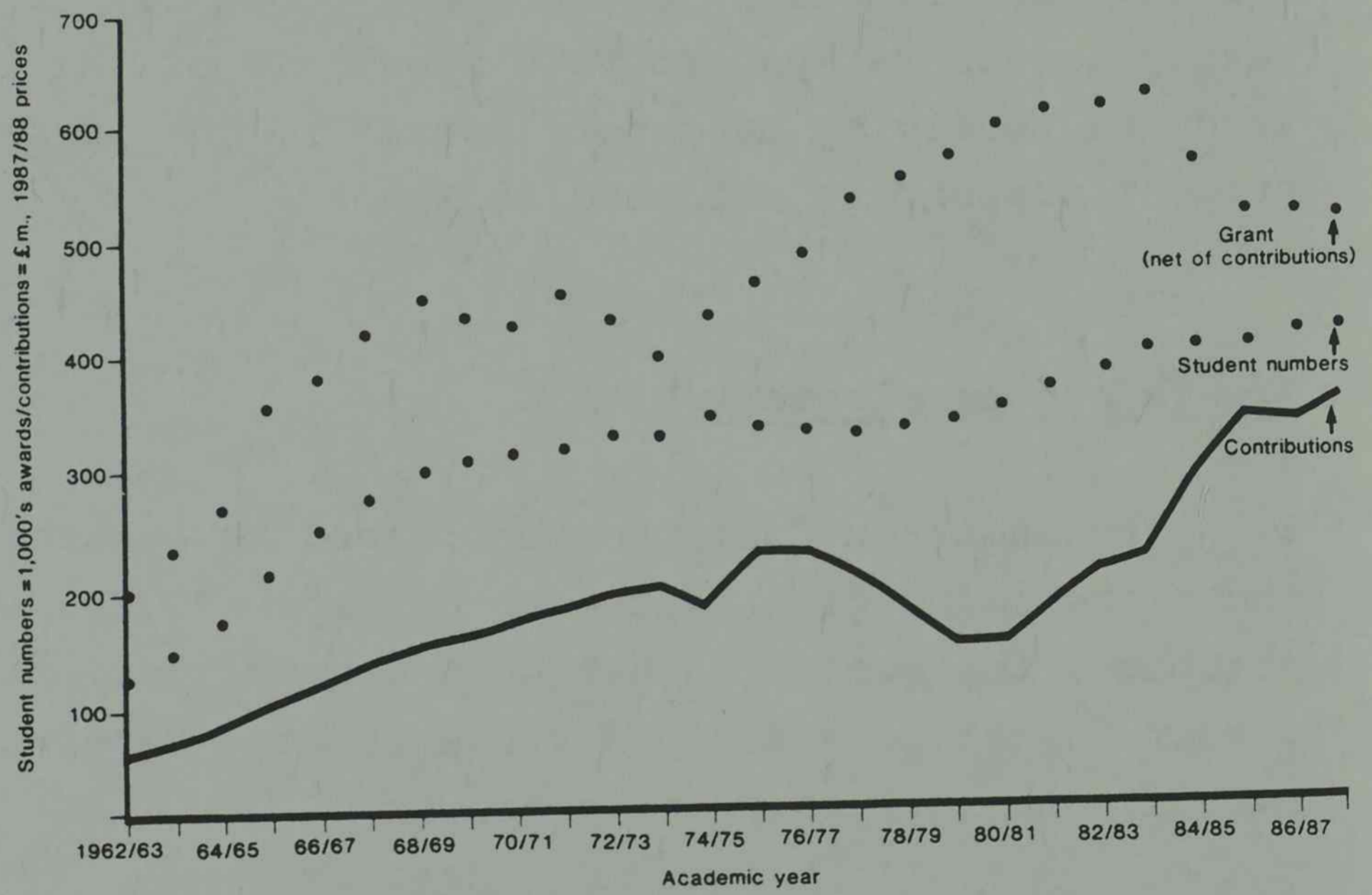
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<sup>1</sup> "Grants to Students", Cmnd 1051, HMSO 1960.

<sup>2</sup> Statistics of student numbers and costs relate throughout to England and Wales unless some other coverage is specified.



### AWARD HOLDERS, GRANT AND CONTRIBUTIONS





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Chart 1 also shows the increasing cost of this system. Total expenditure on student maintenance, including contributions from students' parents or spouses or their own income, has grown from £253m in 1962-63 to £829m in 1987-88, in constant prices. The expected contribution from these sources has similarly increased from £468 on average in 1962-3 to £827 in 1987-88.

Dependence on parents and the state

2.5 The main burden of the contribution falls on students' parents. Students' assessed contributions to the grant from their own income amounted to about £2.7m in England and Wales in 1986-87, or about £7 for each mandatory award holder<sup>3</sup>. Spouses' assessed contributions amounted to about £3m. Parents meanwhile were expected to contribute some £319m. The parental contribution begins to bear on families where incomes are little more than the national average, as Chart 2 shows.

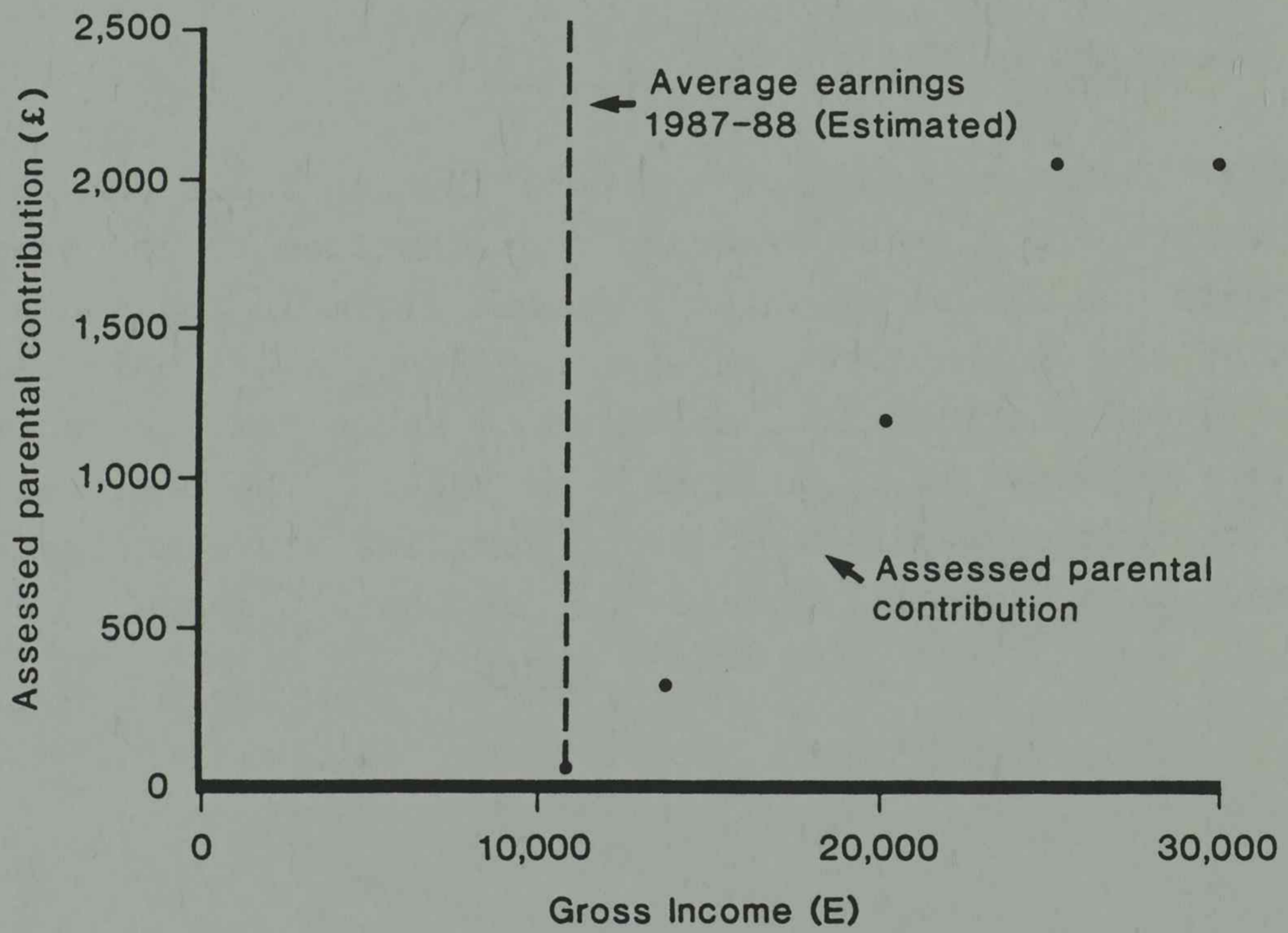
Chart 2

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<sup>3</sup> In the calculation of students' assessed contributions, income from earnings during the period of their course is disregarded.



### PARENTAL CONTRIBUTION COMPARED TO GROSS INCOME



Assuming residual income equals approx. 90% gross income and one child in the family based on new contribution scales for 1988-89.



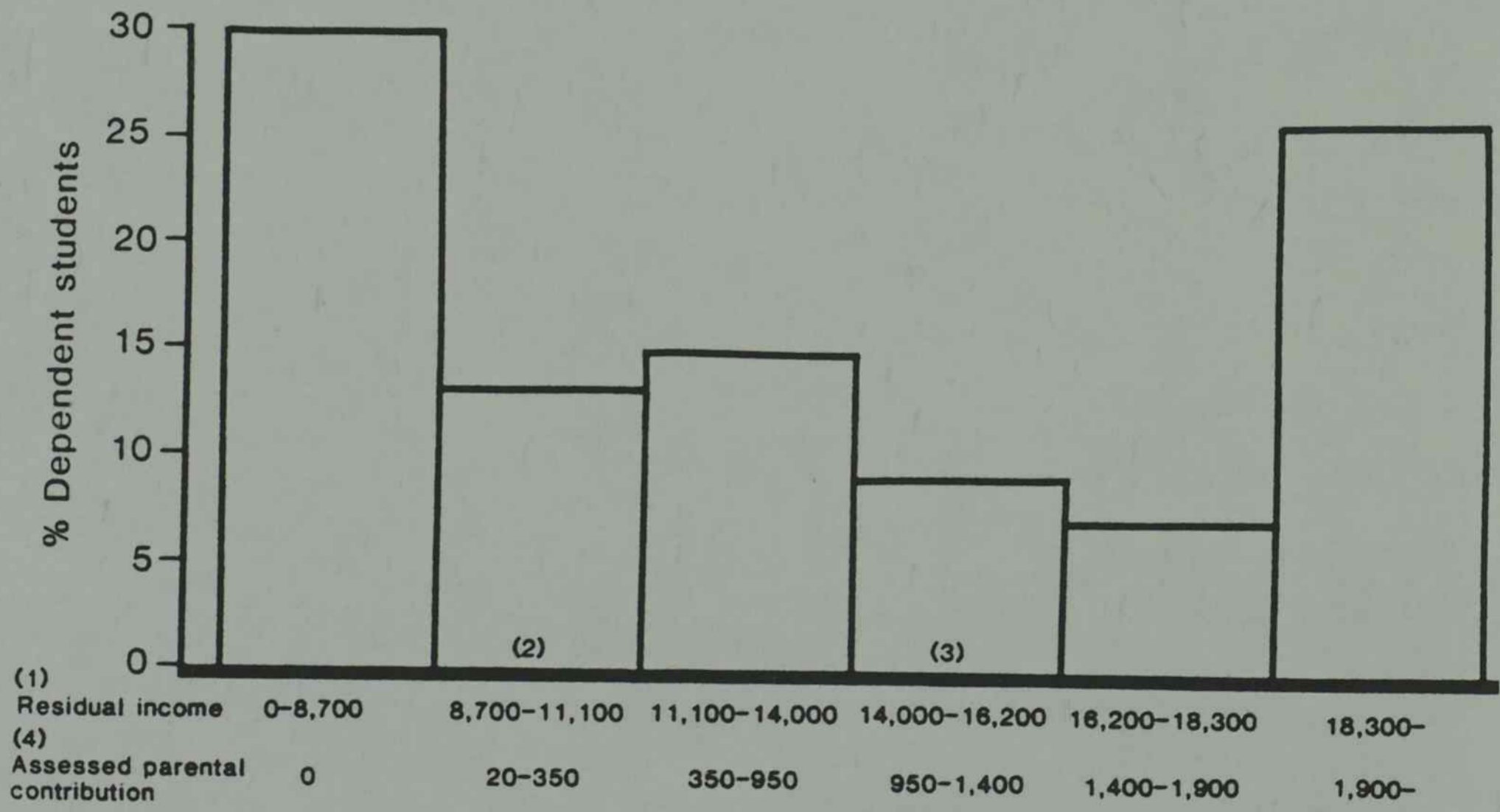
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2.6 Chart 3 shows the extent to which students are dependent on parental contributions.

Chart 3



### DEPENDENT AWARD-HOLDERS - 1986-87 Distribution by residual parental income



(1) Parental contributions for 1986-87 were based on 1985-86 residual income.  
(2) Contribution changes from £1 in £7 of residual income to £1 in £5.  
(3) Contribution changes from £1 in £5 to £1 in £4.  
(4) Contribution may be less depending on rate of grant applicable and number of award holders in family.



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About 12% of mandatory award holders are independent of their parents for this purpose, most because they have reached the age of 25. Of those who are regarded as dependent students, about 30% receive the maintenance grant in full, as the chart shows. The others have their grant abated for a parental contribution, about a quarter receiving no grant in consequence. Students are partly or wholly dependent on their parents in the great majority of cases; only the least prosperous families are expected to make no contribution.

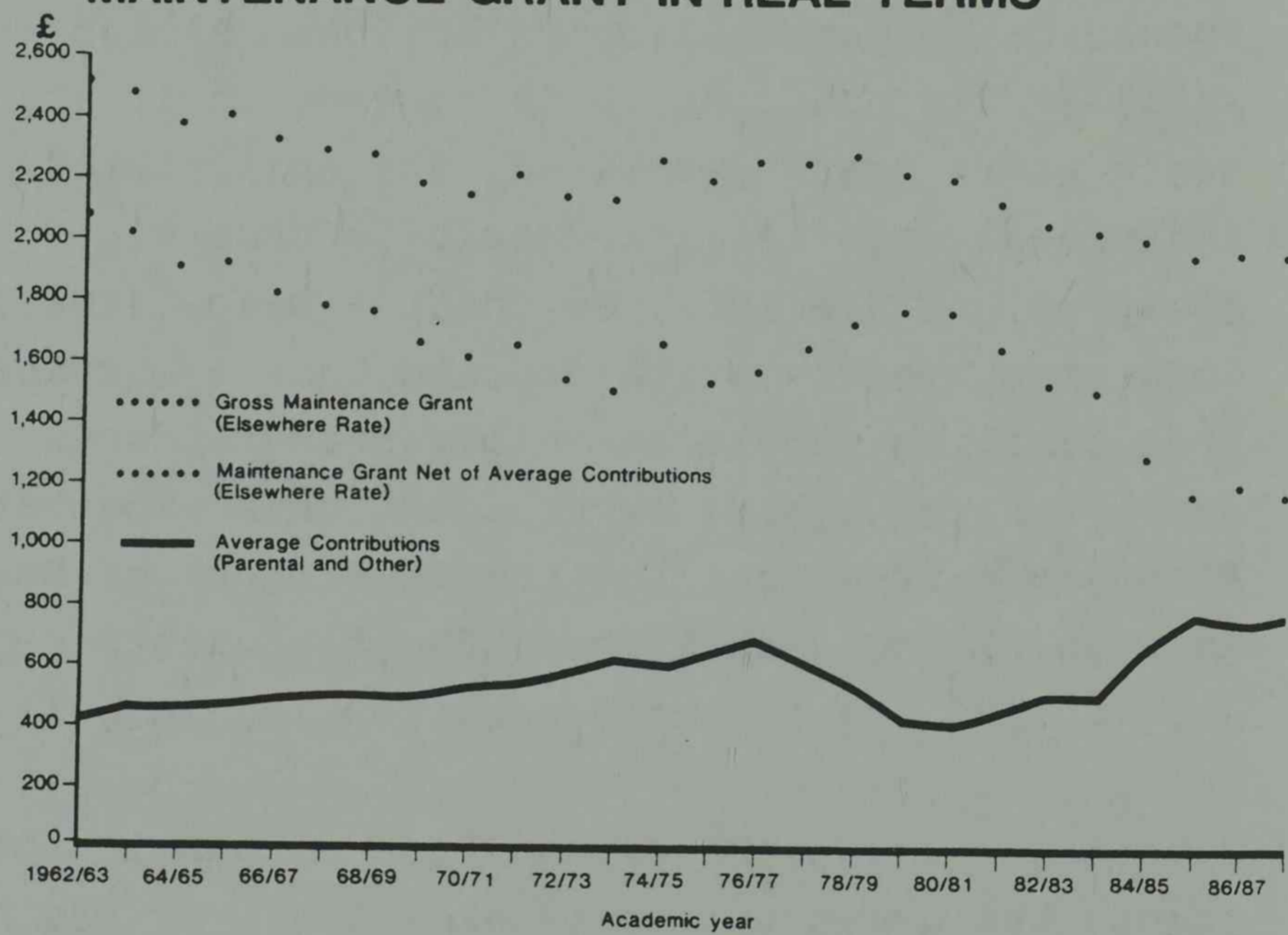
2.7 A majority of the Anderson Committee recommended that there should be no parental contribution. A minority held that if families did not contribute towards their student members' living costs where means permitted, the spirit of family solidarity and individual self-reliance would be undermined; this view was accepted. Since 1962, as Chart 4 below shows, successive Governments have maintained and indeed increased the expectation that families should be involved in financing students' living costs. Parents have never found this expectation easy to meet. A survey carried out for the Department of Education and Science in 1986-87 found that some 35% of students reported that they did not receive the expected contribution in full.

2.8 Since 1962, the expenditure of public funds on student grants has grown very substantially. It has not however kept pace with the increase in student numbers. The result has been a fall of the real value of the grant to the individual student. This is shown in Chart 4, which also shows the increase in the parental contribution.

### Chart 4



### MAINTENANCE GRANT IN REAL TERMS





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2.9 Successive administrations of different political colour have judged that the contribution of taxpayers and ratepayers to students' living expenses could not be sustained at the 1962 level, in view of other pressures on public expenditure. Meanwhile the burden of the parental contribution has become heavier. The Government's conclusion is that a system in which students rely on just two main sources of support - parents and grants from public funds - is unsustainable. Students need access to additional forms of support towards their living expenses

### Welfare benefits

2.10 In recent years social security benefits have grown to form an increasingly important part of some students' budgets. This results partly from changes in the benefit rules, and partly from changes in students' behaviour. The changes from national assistance to supplementary benefit in 1966, and changes in housing benefit in 1983, have allowed more students to claim. Students' awareness of their eligibility to claim has also increased. The effect of the increase in claims has been to create quite disproportionate administrative problems for both the housing benefit and the income support schemes.

2.11 The Department of Education and Science recently commissioned surveys of students' income and expenditure; the findings are summarised in Annex B. The undergraduate survey found that 77% of the students claimed benefits during the academic year or in the long vacation or both. Their average receipts were £249. About a quarter of the students received



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nothing in benefits, and a further quarter under £200. At the other extreme, a handful received more than £1,000<sup>4</sup>.

2.12 The Government believes that student dependence on welfare benefits is inappropriate and undesirable. The welfare system exists to meet the needs of those who are in involuntary difficulties. It serves social and not educational purposes: the taxpayer supports the latter through the grants system. It is undesirable that students should learn to depend upon a wrong understanding of the reciprocal obligations of the citizen and the state. For these reasons the Government announced in the 1985 White Paper on Social Security<sup>5</sup> its intention of consolidating student support into a single system and ending the entitlement of full-time students to claim social security benefits.

Student budgets

2.13 One important finding of the survey of undergraduate income and expenditure was that almost half the students covered expected to have debts outstanding at the end of the year surveyed (1986-87). The average amount these students owed was £341. About 40% of students had overdrafts (average debt £268), 15% had credit card debts (average £174), 6% borrowed from friends or relatives (average £283), and just under 2% had commercial loans (average £662). A few had debts exceeding £1,000.

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<sup>4</sup> These figures exclude first year students, as their benefit claims over the year could have included some from before the start of their course.

<sup>5</sup> "Reform of Social Security: Programme for Action", Cmnd 9691, HMSO 1985.



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2.14 The survey found that the undergraduates' actual income during the academic year was on average about one-third more than the maintenance grant: £2,606, when the average gross grant, including any contributions due, was £2,018. This additional income came from a variety of sources, including students' own earnings, loans, savings, and social security benefits. About a third of the additional income came from parents: although some provided less than their assessed contribution, on average parents overall provided £214 beyond the sums indicated by the contribution scales. Parents in addition provided board and lodging in term and the short vacations worth on average £114.

2.15 The Government considers that students need access to additional support towards their living costs. However, in the Government's view it would not be reasonable to expect parents to contribute more; indeed, the Government's objective is to reduce the parental contribution. Nor does the Government consider that taxpayers, many of whom do not share the advantages that students have once they graduate, should be expected to contribute more by grant. The Government also rejects the principle of student dependence on welfare benefits. The need is for an additional form of support.

Participation in higher education

2.16 In the White Paper "Higher Education: Meeting the Challenge"<sup>6</sup>, the Government made clear the priority it attaches to increasing participation in higher education. We need more men and women with the insight, knowledge and intellectual training which can be had from higher education. The Government is committed to increasing the opportunity for people from all

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<sup>6</sup> Cmnd 114, HMSO 1987.



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backgrounds to participate in higher education. Chart 5 shows how the proportion of young people entering higher education has grown since 1960, and the further increase for which the Government is planning up to the end of the century.

Chart 5

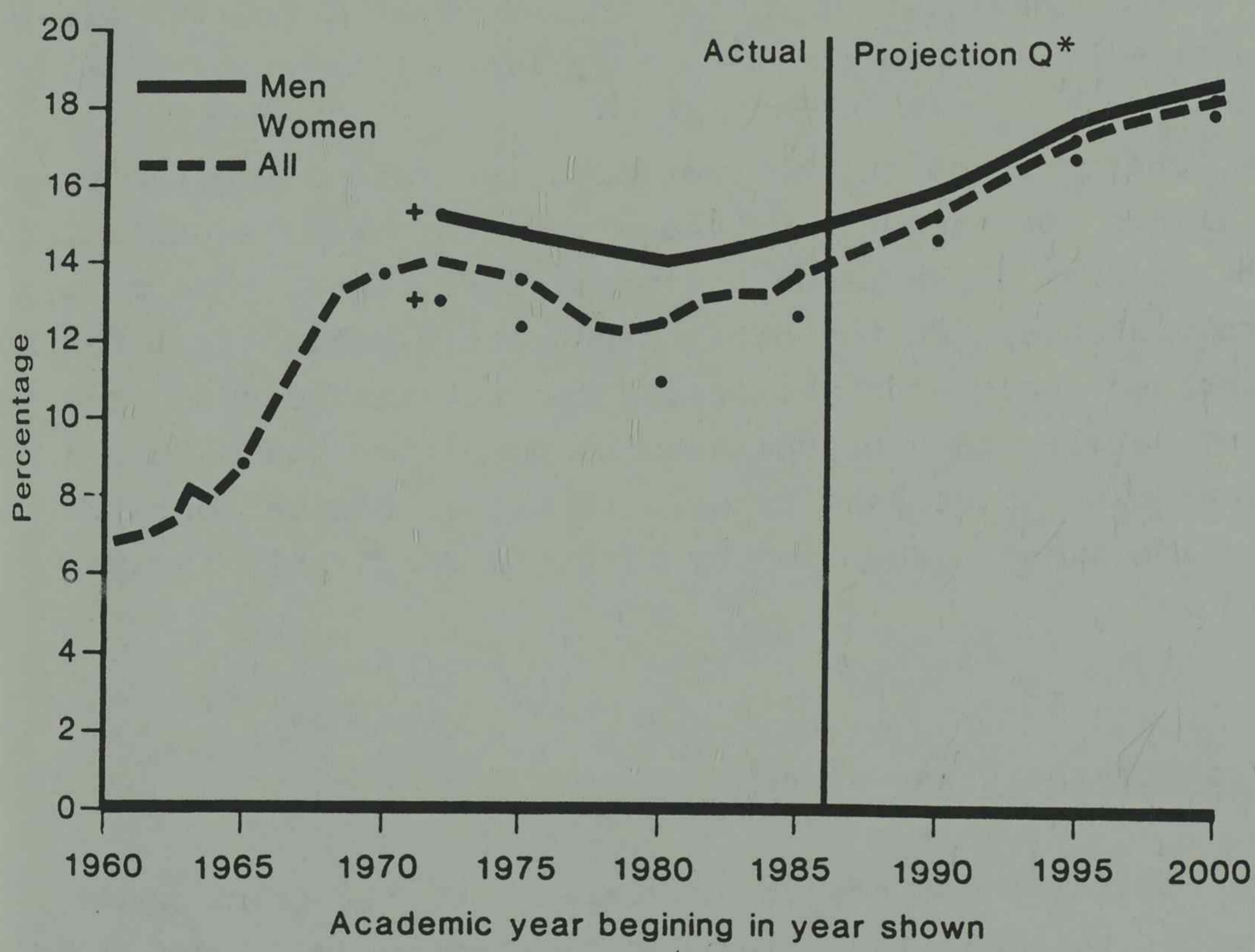


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# PARTICIPATION IN HIGHER EDUCATION: 1960-2000

Percentage of relevant age-group



**NOTES**  
\* Projection Q published November 1986.  
+ Figures prior to 1972 are on a slightly different basis and may therefore not be strictly comparable.



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2.17 The present system of student support has accompanied this increase in educational opportunity since the early 1960s. But the Government does not believe that the same system can promote the further increase in the participation rate that is needed in the next decade, in view of the constraints on the two sources of funding. Moreover, as the number of school-leavers falls, there will need to be a more diverse range of entrants into higher education. Addition of a loan to the present sources of student support will provide the necessary flexibility.

2.18 The increase in the participation rate while the present system has operated has not been uniform. Female participation, starting from a low base, has progressed faster than male, as Chart 5 showed. On the other hand participation from the less advantaged socio-economic groups has not increased so rapidly. A survey carried out for the Robbins committee found that 3.2% of 21 year olds whose parents were in manual occupations had entered full-time higher education by 1962. A comparable figure for 1985 was 6.9%<sup>7</sup>.

Effects of the grant system

2.19 How far these trends are related to the grant system is difficult to establish. The decision to study at the higher level does not turn only on the financial support available. It depends at least as much on expectations established at school and in the home from an early age. What is certain is that the

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<sup>7</sup> "Higher Education: Report of the Committee appointed by the Prime Minister under the Chairmanship of Lord Robbins", Cmnd 2154, HMSO 1963, Appendix One Table 1. The 1985 figure is a DES estimate. The Robbins survey also found that a further 3% of 21 year olds had entered part-time higher education. No comparable figure for manual participation in part-time higher education is available for 1985.



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overall participation rate has continued to increase at the same time as the real value of the grant has been declining.

2.20 It is of course not possible to know how access would have been affected if a different system of student support had applied. Here experience overseas of other systems can be illuminating. Annex C contains a survey of student support arrangements in a range of other countries.

2.21 Chart 6 compares recurrent public expenditure on student support in the United Kingdom and a range of Western countries. As a proportion of total recurrent expenditure on education as a whole, or as a proportion of recurrent expenditure on higher education, UK expenditure on student support was substantially higher than elsewhere. As a proportion of GNP, the UK figure was similarly the highest. Averaged over all students, public expenditure on support per student in the UK was double the next highest figure<sup>8</sup>.

Chart 6

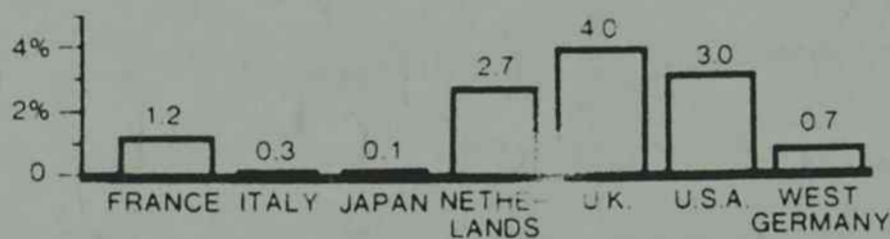
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<sup>8</sup> The figures in Chart 6 update those in DES Statistical Bulletin 4/87, "International Statistical Comparisons in Higher Education". They are based on the same methodology, and are subject to the same restrictions.

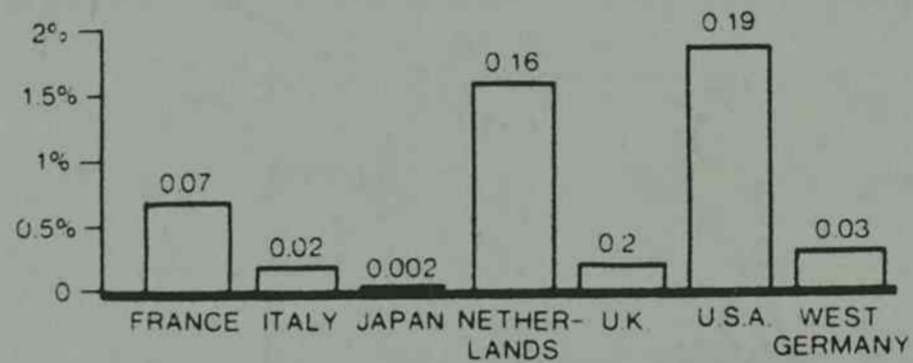


### RECURRENT PUBLIC EXPENDITURE ON STUDENT SUPPORT, 1984

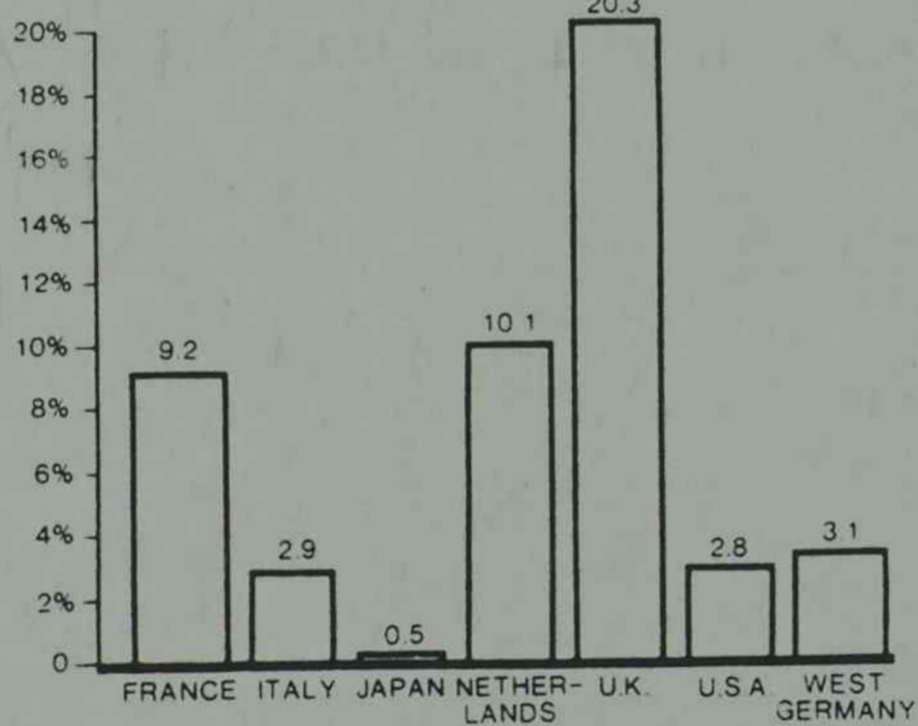
AS PERCENTAGE OF TOTAL PUBLIC SECTOR RECURRENT EDUCATIONAL EXPENDITURE



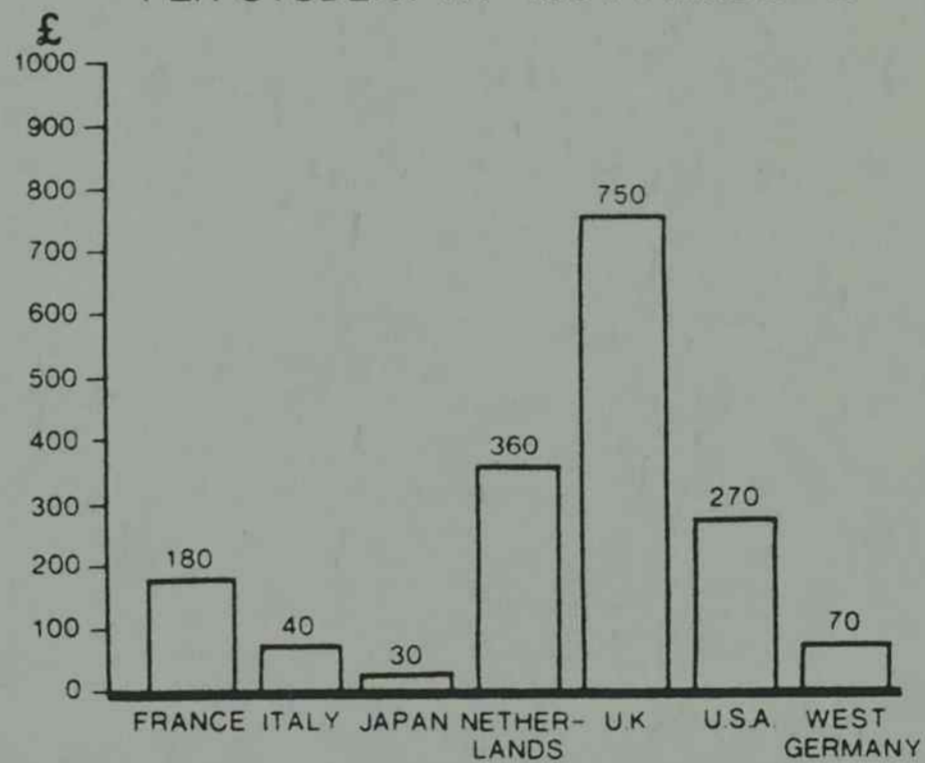
AS PERCENTAGE OF GNP



AS PERCENTAGE OF RECURRENT PUBLIC EXPENDITURE ON HIGHER EDUCATION



PER STUDENT AT 1984 PRICES - £





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2.22 The effectiveness of this level of expenditure is open to question. As Annex C shows, participation in higher education in the UK is towards the middle of the range for the countries surveyed (excluding the USA), despite our high expenditure on student support. On the other hand on measures of the proportion of graduates in the population, the UK figure is high by comparison with other European countries. This may be related to the competitive entry system in the UK: the resulting low drop-out rate leads to a greater proportion of students emerging with a qualification. It is clear, at all events, that our system of support is concentrated on a relatively narrow range of types of student.

### A student contribution

2.23 The survey of other countries' arrangements highlights the availability of a greater variety of public support towards students' living costs, particularly in the USA. It is also notable that in those cases where provision is made mainly or entirely through grants, a relatively small proportion of students has access to it. Where loans are available as well as grants, the support generally extends to a larger proportion of students. This is shown graphically in Charts A and B in Annex C. Britain is unique in attempting to support a large proportion of students with a grant.

2.24 This apparent generosity is a mixed blessing. A would-be student embarking on a designated course at first degree level, and meeting the conditions relating to such matters as residence, is certain of receiving a mandatory award - though its value is subject to means-testing. On the other hand the supply of higher education places is subject to constraints on public expenditure, in which student support is one factor. And as the income and



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expenditure survey showed, the maintenance grant scarcely meets the needs of some students, while in many families the parental contribution bears heavily.

2.25 The continuing rise in the participation rate, despite the fall in the value of the grant and the sacrifice of potential earnings during the period of study, is evidence of students' estimate of the value of higher education. Indeed, economic analysis suggests that, in financial terms alone, higher education would be worthwhile to the student even if no maintenance grant were available. This analysis is set out in Annex D. It shows that the return on the individual graduate's personal investment in higher education (earnings forgone, offset by the maintenance grant) in recent years has been in the region of 25%, taking all subjects together.

2.26 The same analysis shows that the return to society on its investment in the graduate's higher education is much lower: between 5% and 8%. The individual graduate benefits more than the community as a whole from the latter's investment in the former's higher education. The division of costs, on the other hand, goes the other way. That is why there is scope for the individual student to bear more of the cost of the investment.

2.27 Graduates with high incomes do of course contribute to public expenditure by paying high taxes. But this results from their earnings, and does not relate to the cost of their higher education; high earners who have not had the privilege of higher education pay equally high taxes. Students' direct contribution to their living costs is relatively small: on average a little over £300 a year from earnings, drawings on savings and loans, against total average living expenses of almost £2,900.



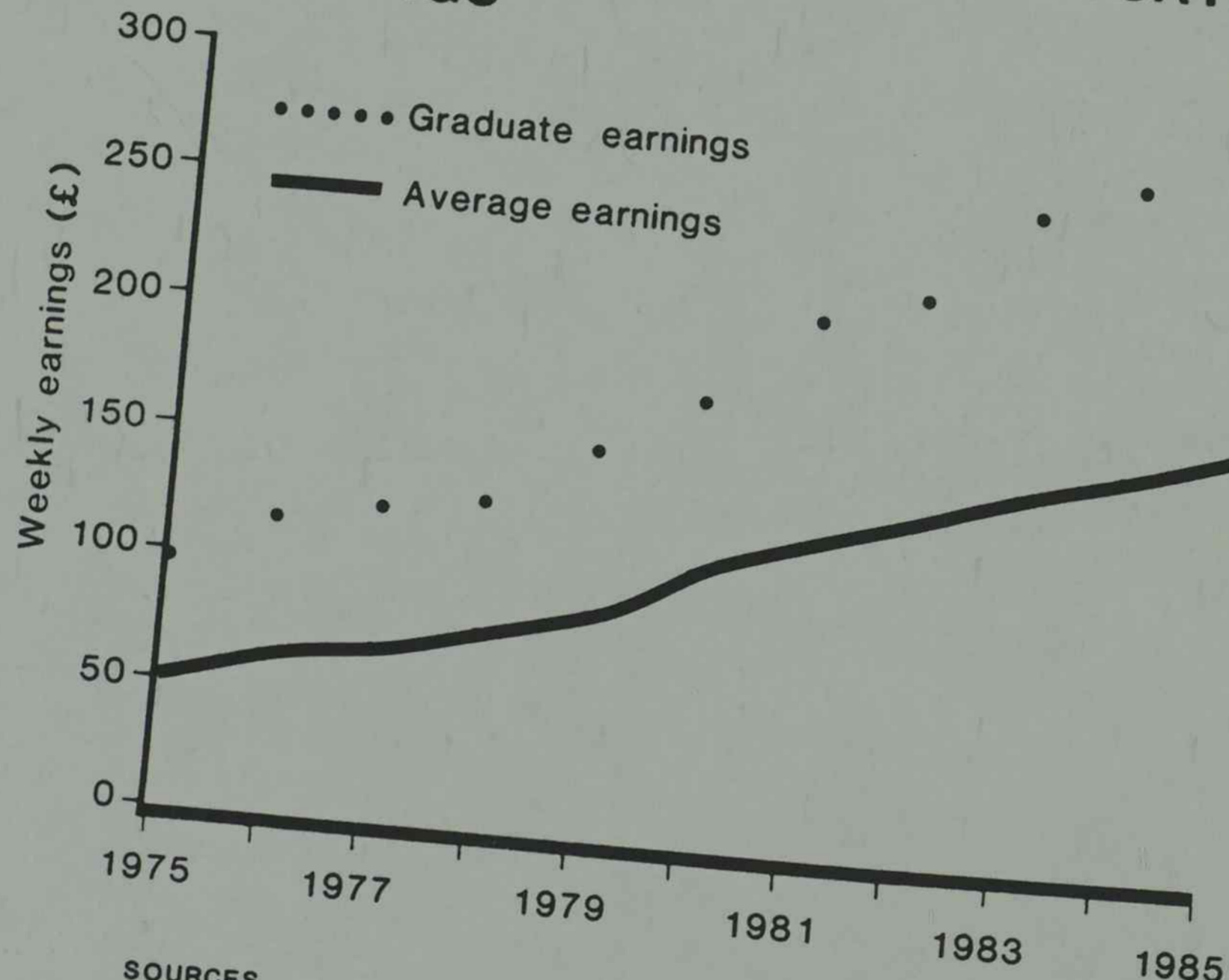
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2.28 The general Government revenue out of which students are supported derives predominantly from income tax. Many taxpayers have incomes lower than those that students are likely to earn as graduates, as Chart 7 shows.

Chart 7



### AVERAGE EARNINGS AND GRADUATE EARNINGS



**SOURCES**

- 1. Graduates' earnings: General Household Survey. Average gross weekly earnings for males aged 30-39 in the labour force.
- 2. Average earnings: New Earnings Survey. Weekly earnings for males and females aged 18 and over. From 1983 onwards, figures cover all males and females on adult rates.



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Moreover, as Chart 3 showed, many students come from families with incomes above the average, while the less advantaged socio-economic groups are under-represented in higher education. Under the present system taxpayers in general - poor and middling as well as rich - are contributing to the living costs of students who in many cases come from, and as graduates are likely to occupy, the more advantageous positions in society.

2.29 Society as a whole needs graduates' talents, and the Government does not propose to remove the existing maintenance grant. But the Government intends to ensure a fairer distribution of the costs and widen the resources available to students by offering a loan facility that will over a period of years partially replace the existing grant.

### Top-up loans

2.30 The loans proposed by the Government will top up the existing grant and parental contribution. At the same time they will more than compensate the average student claimant of welfare benefits for the loss of entitlement. The new loan will provide a substantial net addition to the resources available to students.

2.31 These proposals derive from the work of the review of student support, chaired successively by George Walden and Robert Jackson, Parliamentary Under-Secretaries of State at the Department of Education and Science. The review was established by the Government in 1986 in response to the growing unsuitability of a system based on grants only for modern conditions. There will be no separate report from the review; the review group's thinking is subsumed here. The review group wishes to record its gratitude for the information and analysis



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presented to it, from Britain and overseas.



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CHAPTER III: THE GOVERNMENT'S PROPOSALS IN DETAIL

The loan

3.1 The main features of the top-up loan scheme that the Government proposes are:

- zero real interest
- no means-testing
- repayments responsive to earnings
- no cross-liability of spouses.

These terms represent a further effective subsidy, as graduates will not be required to pay commercial rates of interest. The loan facility will first be made available - subject to Parliament's approval - in the 1990-91 academic year.

3.2 These proposals are set out more fully in the following paragraphs. The Government will be discussing their implications with interested parties - including the financial institutions (see paragraph 4.1 below) - and will be open to suggestions for adaptation and refinement.

Eligibility

3.3 The loan facility will be offered to all full-time home students in higher education, except postgraduates, up to the age of 50<sup>9</sup>. It will be available from autumn 1990 to all students

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<sup>9</sup> The definition of higher education in the Education Reform Act 1988 (Schedule 6) includes first degree courses, DipHE courses, BTEC HND and HNC courses and the Diploma in Management



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who are eligible, including those already part-way through their courses, so as to offer at once access to the additional resources that the Government intends to provide through the loan. The same loan facility will be available irrespective of subject of study or of the level of the student's grant, if any.

3.4 Unlike the maintenance grant, the loan facility will not be means-tested. The size of loan available in individual cases will not be dependent on the resources of the student's parents or spouse, or the student's own income. How much of the facility is used will be a matter of individual choice.

3.5 A student embarking late in life on study at first degree level has not the opportunity thereafter to repay the loan. The facility will not therefore be available to students aged 50 or over at the start of their course. Students embarking on higher education at that age can be assumed to have accumulated other resources on which they can rely in place of the loan. They will continue to have access, as now, to the other elements of the mandatory awards regime.

### Value of loan facility

3.6 The Government proposes that the loan facility, like the maintenance grant, should be available at three rates, according to whether the student is living in term in the parental home, away from home in London, or away from home outside London. The

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Studies, Certificate of Education courses, and other courses leading to examinations or with entry requirements above the standard of the GCE advanced level or the BTEC National Certificate or Diploma. The loan will not be available for post-graduate courses (which are also covered by Schedule 6) or for courses at the Long-Term Residential Colleges.



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home rate would also be appropriate for any students in establishments providing free board and lodging.

3.7 The loan facility is intended to provide support throughout the year, at a level which will make it unnecessary for students to look for supplementary support from the social security system. It is not intended however to cover the long vacation that follows the end of the course, when the graduate is available for work. The loan facility for the final year of study is therefore calculated to cover 38 weeks, the average duration of term and the short vacations.

3.8 The cash value of the loan facility will have to be settled nearer to the introduction of the new regime. The illustration below is based on the hypothesis of the value of the maintenance grant increasing by [4.5% in 1989-90 and 3.5% in 1990-91]. The loan maxima, grant including parental contribution, and total resources for an individual student in the first year of the scheme would then be:



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	maximum loan facility	maintenance grant (including contributions)	£ total resources
in a full year of study			
'elsewhere'	420	2,215	2,635
London	460	2,625	3,085
home	330	1,765	2,095
in the final year of study:			
'elsewhere'	310	2,215	2,525
London	340	2,625	2,965
home	240	1,765	2,005

For some students, such as those with dependents, additional allowances will continue to be available as part of the maintenance grant. Including the allowances, a student's total resources on average will be £2,239 for those at home, £3,229 in London and £2,779 elsewhere.

3.9 After 1990-91, the Government proposes to make no further increase for a number of years in the grant or parental contribution. The maximum grant, and the average contribution, will be maintained at the 1990-91 cash level. Students' total resources in grant and loan will continue to be reviewed annually in the light of evidence of cost increases, as the grant levels are at present. But any uprating will be applied to the loan facility only. In real terms, therefore, the value of the grant - and the burden of the parental contribution - will fall, and the loan facility will expand to compensate.



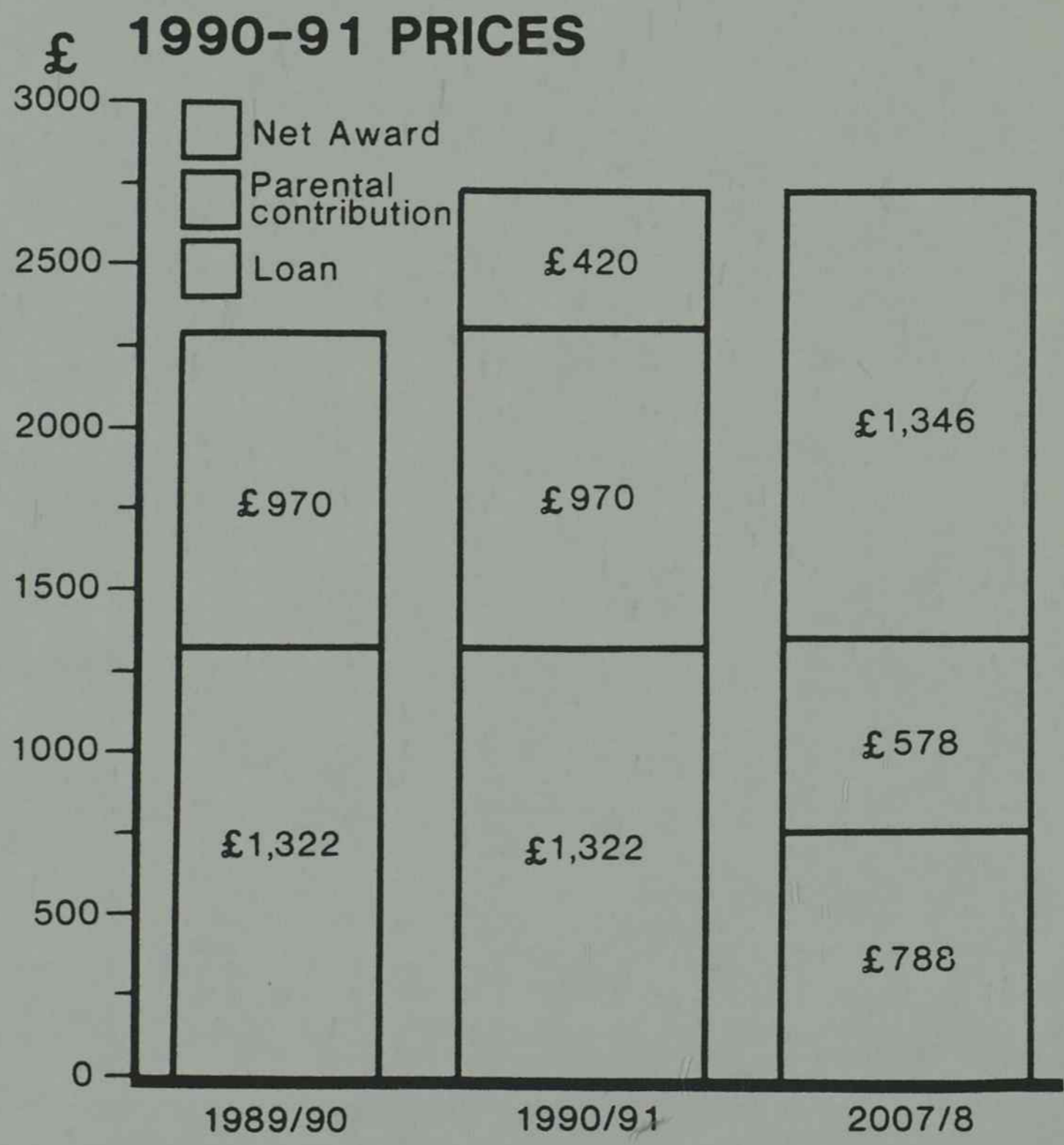
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3.10 That process will continue until the grant and the parental contribution taken together is approximately equal to the loan facility. On the hypothesis of 3% inflation annually after 1990-91, that point is reached in 2007-08. The effect is illustrated in chart 8 below, which shows in constant prices the net grant, parental contribution and loan facility for a typical student before the introduction of the new regime, on its introduction, and in 2007-08.

Chart 8



### LEVELS OF GRANT, CONTRIBUTION & LOAN



NOTE: Figures apply to students with average parental contribution and award for 1990-91. The gross award is equivalent to the elsewhere rate of grant plus average additional allowance of £137.



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How the uprating is apportioned between grant and loan facility after 2007-08 will need to be decided nearer the time. The present intention is that it should be applied to both equally. This will maintain an equilibrium between the student's own contribution, and the reduced contribution of the taxpayer and the parents.

### Parental contribution

3.11 When the loan facility is introduced in 1990, the levels of both grant and parental contribution will be unaffected. Some students may choose to use the loan facility to minimise the extent to which they rely on support from their parents. As the real value of the loan increases, the effect will be felt at all points on the income scale as a reduction of the real cost of the parental contribution.

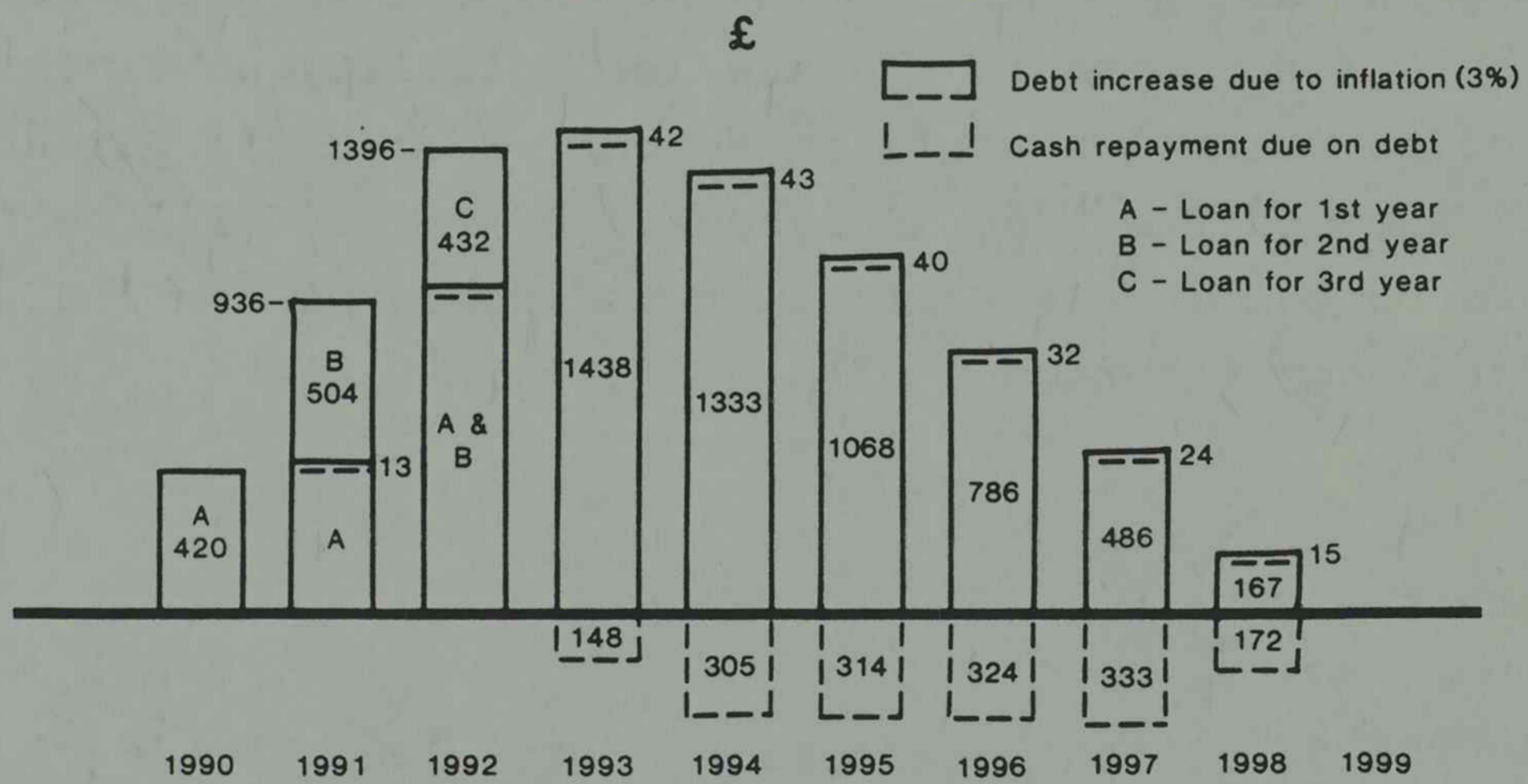
### Interest

3.12 The Government proposes that the loan should be provided at a real interest rate of zero. This would be achieved by revaluing the outstanding debt annually in line with the Retail Prices Index. Chart 9 shows how the debt would be built up and paid off in the case of a student starting a three-year course away from home outside London in autumn 1990, using the full loan facility, and completing repayments over a five year period, on the hypothesis of 3% annual inflation.

#### Chart 9



### BUILD-UP AND DISCHARGE OF DEBT OF A STUDENT COMMENCING A THREE YEAR COURSE IN 1990 - 91



Repayments shown are for a student entering a 3 year course in 1990 receiving loans of £420, £504 and £432 (cash)



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These repayments would amount to about 5 - 10% of the cost to the public of the average student's higher education.

### Repayments

3.13 The liability to start repayments should not immediately follow graduation. The Government proposes that the liability should begin in the April following the end of the period of study. Graduates will therefore have nine months' grace before any liability begins.

3.14 The Government proposes that repayments should be responsive to individuals' economic circumstances. A choice to pursue a vocation where earnings are low should not be inhibited by an obligation to complete repayment of the loan. This applies particularly to the decision to interrupt work in order to raise children. It is not the Government's intention that the repayment obligation should constrain such choices.

3.15 Various repayment regimes are possible. For example:

- A The repayment period could be fixed as a number of years - eg 10 - and each year's instalment calculated by dividing the outstanding debt, revalued as in paragraph 8.11, by the number of years remaining. In any year where earnings were low - for example, less than 85% of national average income - repayments would be deferred and the period extended. For those whose income was only a little over that threshold, a tapering scale of repayments would apply.
- B The repayment period could be variable, with the annual instalment fixed, for example, at £500 (in later years



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this might need to be larger in the light of any inflation). This would allow graduates with small loans to complete repayments quickly, and give those with large loans longer. For periods of low income, arrangements similar to those under Option A would be needed.

- C A combination of Options A and B would have the repayment period fixed initially in line with size of the debt. This would allow students with large loans longer, and involve roughly similar instalments for all. The same provisions for low income would apply.
- D A different approach would relate repayments directly to taxable income. The repayment period would not be fixed, and the instalment would be expressed as a percentage of taxable income - perhaps in the region of 4% - rather than a fixed sum. Deferral of repayments for periods of low income would then be automatic: those with earnings below the income tax threshold would make no repayment, and the instalments for those with low incomes would be in proportion. As with the other options, any repayment deferred would be revalued and added to the outstanding debt.

As part of the consultations described in paragraphs Chapter IV, the Department of Education and Science will study further the practicability of the possible repayment regimes.

3.16 Under any of these options except A, the repayment period will vary in line with individual circumstances. It will in any case increase over time up to 2007-08, as the loan facility comes to provide a larger component of the resources available to students. The Government expects that a student taking out a



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small loan then earning an average graduate salary would complete repayments in five years. Graduates with larger loans or lower earnings would take longer.

3.17 The Government does not intend that repaying the loan should be a life-long commitment. Under all four options, most graduates would be able to complete repayment in a span of time much shorter than the normal term of a mortgage. But a limit must be established for cases where repayments are repeatedly deferred because of low income. The Government therefore proposes that any outstanding loan should be written off in the following circumstances:

- death: there will be no charge on a graduate's estate for any loan outstanding
- where there has been no evasion of repayments, either
  - on the graduate's reaching the age of 50; or
  - 25 years after the loan commenced,whichever is sooner.

For students starting courses aged 40 or over, however, cancellation of any outstanding loan will apply from the age of 60 rather than 50. For students aged 50 or over on starting a course, the loan facility will not be available.

3.18 The Government proposes to reduce the loan outstanding if repayment is completed early. How this will operate depends on the repayment regime adopted. An incentive for early repayment will help bring forward the benefits to the taxpayer arising from the loans scheme.



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### No responsibility of spouses

3.19 The repayment will be individually calculated on the basis of personal earnings. A spouse's income will not be taken into account. A woman who interrupts her career while raising children may make no repayments during that period, until her income rises above the repayment threshold on her return to employment.

### Potential difficulties with loans

3.20 The regime proposed is designed, with the benefit of experience overseas, to avoid difficulties which can arise in using loans to support students' living costs. The potential difficulties, and the ways of meeting them, are analysed in Annex G.

### Access Funds

3.21 At the same time as introducing the loan facility, the Government intends to establish three Access Funds to provide additional support to home students in the form of discretionary bursaries. These will be available in cases where access to higher education might be inhibited by financial considerations, or where students, for whatever reasons, face real financial difficulties. The Access Funds will be administered by the higher and further education institutions themselves, which will be responsible for applying criteria to their own students, assessing individual circumstances and making the payments. There will be three Funds, each of £5 million a year.



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3.22 The undergraduate Fund will be available to all full-time home students on higher education courses in publicly-funded establishments, including those on such courses in further education colleges. Students with discretionary awards and students who are supporting themselves without an award, as well as those with mandatory awards, will be able to seek assistance from the Fund. The Post-graduate Fund will provide discretionary assistance to home students studying at levels above first degree, who will not be eligible for loans.

3.23 The institutions will bid for their allocations from these two Funds to the Universities or the Polytechnics and Colleges Funding Councils. Where the Councils' remit does not apply, other arrangements will be made. The Department of Education and Science will discuss the operation of the Funds with representatives of the two Funding Councils and of the higher and further education institutions.

3.24 There will be a parallel Fund for full-time home students aged 19 and over in further education, including those on further education courses in higher education establishments. It will provide assistance in the form of discretionary bursaries, administered by the establishments, which will be responsible for assessing their students' needs and making the payments. Students who have discretionary awards or who are supporting themselves will be eligible, subject to the policies of their institutions. The availability of this Fund will be confined to publicly-funded institutions. The Department of Education and Science will discuss the administration of the Fund with representatives of the the local education authorities, the Polytechnics and Colleges Funding Council and the institutions.

3.25 The Government hopes that the institutions will themselves work out imaginative arrangements for enhancing the value and



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scope of the Funds, for example by linking payments to sponsorship, using them to help students find paid employment, or making some payments on a repayable basis, as well as making grants.

### Social security benefits

3.26 These arrangements will make it possible to implement the Government's long-standing commitment to removing full-time students from dependency on social security benefits. The new loan facility, and the two new bursary funds, in combination are intended to give students access to the resources they need. From their introduction full-time students in higher or further education will no longer be entitled to claim income support, unemployment benefit or housing benefit.

3.27 Students' entitlement to other social security benefits will not be affected. They will still be able to claim, according to their circumstances, refunds for medical or dental charges, and child benefit. Moreover, students who are single parents or disabled will continue to be able to claim income support and housing benefit. Students with dependents will also have access to the additional allowances under the grant regime.

3.28 The restriction of benefits will apply only to students personally, not to their partners. The partner of a student, if entitled to a benefit in his or her own right, will not lose that entitlement merely by virtue of the relationship with the student, and will be able as now to claim benefits individually or on behalf of the family unit. The husband of a mature student, for example, will thus be able to claim unemployment benefit or income support if he is seeking work, and housing



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benefit if appropriate, subject to the conditions applying to all claimants.

3.29 The surveys of students' income and expenditure included data on benefit claims. These provide a basis for estimating claims in 1990-91, taking account of factors such as the changes in housing benefit entitlements in April 1988 and likely developments in vacation employment opportunities. The Government estimates that in 1990-91 students would have claimed on average about £150 in housing benefit and income support in a full year of study. The expectation is, however, that some 50% of students would make no claim; the average among those making a claim would be about £300. For students in their final year of study, whose claims do not include a long vacation, the average claim would be about £35, and the average received by each claimant (only about 20% of students) would be approximately £175. The various rates of loan proposed for 1990-91 substantially exceed those figures for claims. Students who would have been able to make claims at or near those average rates will find therefore that the loan facility will give them access to a significant increase in resources even after the loss of their benefit entitlement.

3.30 Some students in 1990-91 would have claimed more than those average figures. For those students, the availability of the Access and Further Education Funds may be particularly important.

3.31 The Government believes that ending students' dependence on social security benefits will, like the availability of a loan, contribute to increasing their economic awareness and their self-reliance. It will also put an end to the anomaly of short-term claims by students from a series of different addresses



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generating administrative costs that can exceed the benefit payment.

### Costs and Savings

3.32 Introducing the new regime will involve a net increase in public expenditure of about £120 million in the first year. As repayments are made they will offset costs, growing to balance them by the start of the next century. Thereafter repayments will outweigh costs, producing a net saving in public expenditure which will stabilise at something over £200 million (at 1990-91 prices) once the regime is fully developed. Annex E sets out this estimate in full, together with the assumptions on which it is based.

### The mandatory awards system

3.33 The Government does not propose to make major changes in the mandatory awards system at the same time as introducing the new regime. Its view is that the net increase in resources provided by the availability of the loan facility, together with the extra flexibility that it and the bursary funds will offer, will give students the scope they need to adjust their budgets in the light of individual circumstances.

3.34 The Government nevertheless intends, subject to Parliament's approval, to remove certain restrictions on the availability of mandatory awards.

- i. The moratorium on new designations. For certain types of course - for example, first degree courses provided by universities - designation of a new course as one



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for which a mandatory award is available is automatic. For other courses, designation is dependent on approval by the Secretary of State. Since 1981 a moratorium has applied to such designations, and a number of courses which meet the Secretary of State's normal criteria are awaiting designation. From September 1989 the moratorium will not apply to any course leading to a first degree, including courses provided by establishments not maintained or assisted by recurrent grant from public funds.

- ii. Disregarding previous study. Mandatory awards are not available to students who have previously attended, for a period of more than six months, a course of higher education of more than two years' duration, or who have satisfactorily completed the equivalent in part-time study. This disqualification applies whether or not they received a grant for the earlier study. From September 1989 the rules will be changed so that mandatory awards will be available to students whose previous study was not supported from public funds.

3.35 As the students affected by these changes are in higher education, they will in any case have access to the top-up loan facility.

3.36 The Government will moreover continue to keep the mandatory awards system under review, with a view particularly to reducing its complexity. One such simplification, which could also be implemented in 1990, concerns the basis on which income is assessed for the purpose of establishing the parental contribution. At present gross income is abated by various factors, and the contribution calculated against the residual income. Use of gross income as the basis of the calculation



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would simplify the system for both parents and local education authorities. The issues are considered further in Annex F. The Government will welcome comments on the desirability of moving to a gross income basis.

Monitoring

3.37 The Department of Education and Science will monitor the introduction of the new regime, so as to measure its effects on such matters as participation by social class or gender. As a first step, preparations are in hand for a further survey of students' income and expenditure to be undertaken shortly before the introduction of the new regime, so as to provide a base-line for later comparisons.



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CHAPTER IV: NEXT STEPS

Consultations

4.1 The Department of Education and Science is now discussing with the banks and building societies, and others with expertise in this area, the arrangements for making loans and collecting repayments. The Government's objective is to identify a cost-effective scheme which the financial institutions will be able to administer.

4.2 The Department is also initiating discussions with the local education authorities about implementation of the revisions of the mandatory awards system. These discussions will cover in particular their views on the possibility of basing contributions on gross rather than net income.

4.3 The establishment of the two new bursary funds will introduce a new role for the higher and further education institutions. Their experience in the field of student welfare will provide a basis for the operation of the new funds to meet local needs and circumstances. The DES will discuss the administration of the funds with the Funding Councils and representatives of the institutions and the local education authorities.

Legislation and timetable

4.4 The Government will introduce a short Bill in the 1989-90 Session of Parliament to implement the new regime. Its main purposes will be as follows:



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- (i) to establish the power for the Secretary of State to provide loans to students holding mandatory awards; and
- (ii) if necessary, to provide for the administration of the Access Funds.

The Bill providing these powers will also require Parliament's approval to be sought for the detail of their operation, which will be defined in Regulations. Subject to Parliament's approval, the legislation will allow the new regime to be introduced in autumn 1990.

Conclusion

4.5 The Government is convinced that the availability of a loan facility to top up the maintenance grant will provide a valuable extension of the sources of support available to students. It will support the broadening of participation in higher education, at the same time as sharing the cost of supporting students' maintenance more equitably between taxpayers, students' families, and students themselves. The loan will give students a personal stake in the investment made in their future.

4.6 There is however scope for discussion about the way the loan scheme should be structured so as to provide students most effectively with the support they need. Four options for repayments have been set out above. Comments are invited specifically on the desirable structure of the loan regime, and on the possibility of adopting gross rather than residual income as the basis for calculating contributions.

4.7 Comments on these points should be sent to the Department of Education and Science, Room 7/1, Elizabeth House, York Road,



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London SE1 7PH, to arrive by 1 March 1989.



THE CURRENT AWARDS SYSTEM

1. The main features of the present system of student support are:

- i) payment of tuition fees: tuition is free for those holding a mandatory award (defined in paragraph 4);
- ii) a contribution towards board and lodging, books and other maintenance expenses, subject to a means test;
- iii) it underwrites one opportunity for all suitably qualified people, regardless of age or sex, to undertake a full-time course of higher education;
- iv) mandatory awards are generally available for full-time study only, on the assumption that part-time students have earnings from employment or other resources;
- v) subject to acceptance on an appropriate course, students are free to choose the institution where they study and their subject; and
- vi) mandatory awards cover the full period of a student's course, regardless of its length.

2. In England and Wales student support is administered by local education authorities; in Scotland by the Scottish Education Department; and in Northern Ireland by the Education and Library Boards. The arrangements for Scotland and Northern Ireland closely resemble those in England and Wales, though there



are minor variations. It has been the policy of successive Governments to maintain parity of treatment throughout the United Kingdom so far as the main features of the system are concerned.

### England and Wales

3. The Education Act 1962 imposes a duty on local education authorities (LEAs) to provide mandatory awards to students in specified circumstances, principally for first degree courses. It also gives LEAs the power to make discretionary awards in other cases.

### Mandatory Awards

4. Mandatory awards are available for designated courses. These are full-time first degree courses, certain courses for university certificates or diplomas, courses for the Dip HE, HND and initial teacher training. In addition the Secretary of State has power to designate individual courses which are comparable in standard to first degree courses, though a moratorium has applied to such designations since 1981.

5. In general, a student may receive an award for only one attempt at an advanced qualification. Those who have undertaken previous advanced study on a course lasting more than two years are ineligible, whether they received an award or not, if they attended the course for more than six months. The only exception is that a mandatory award is available for a graduate undertaking a post-graduate course of initial teacher training or a two-year Bachelor of Education course.

6. To qualify, students must have been ordinarily resident in the United Kingdom, Channel Isles or Isle of Man for the three



years preceding the academic year in which their course begins. Exceptions apply if the student, or the student's parents or spouse, have been temporarily employed abroad. There are also some exceptions to the residence requirement for students from European Community countries, and refugees, asylees and their spouses and children.

7. The award comprises a contribution to maintenance costs, and payment of tuition fees. The maintenance grant rates are reviewed annually. The figures quoted here are for the 1988-89 academic year. For students resident in the parental home the basic maintenance grant is £1,630. For those living outside the parental home it is £2,425 for those studying in London, and £2,050 elsewhere. For students receiving free board and lodging at college, the rate is £895. The grant is assumed to cover the Christmas and Easter vacations and 30 weeks of term-time.

8. Students aged 25 or over, or who have supported themselves for at least 3 years before the start of their course, are regarded as independent of their parents for awards purposes, as are those who have been married for at least three years. A parental contribution is assessed for other mandatory award holders.

9. 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 income in the preceding financial year less certain deductions, chiefly for other adult dependents, interest payments (including mortgage interest), superannuation, life insurance and pension scheme contributions. After residual income has been calculated, and the parental contribution assessed, a further deduction is made in respect of any other dependent children of the family.



10. A nil contribution is assessed where parents' residual income is less than £9,900. At £9,900 a contribution of £37 is assessed; contributions are then assessed at the rate of £1 for each £9.33 of additional income up to a residual income of £12,600, then £1 for every £6.66 up to a residual income of £18,400, and £1 for every £5.33 thereafter. The contribution is limited to a total maximum of £4,900: this protects parents with more than one child in higher education simultaneously<sup>1</sup>.

11. In the case of married independent students, the spouse's contribution is similarly based on residual income. No contribution is assessed on incomes below £7,800. At £7,800 a contribution of £10 is assessed; contributions are then assessed at £1 in every £7 up to a residual income of £12,600, then £1 in every £5 up to a residual income of £18,400, and £1 for every £4 thereafter, with again a maximum of £4,900.

12. A contribution is similarly expected from any unearned income the student may have. The student's contribution is not based on residual income. On incomes (after deduction of tax and national insurance) beyond £525 the student is assessed to contribute pound for pound towards the grant. However, scholarship or sponsorship income to a limit of £2,150 is disregarded, as are all earnings from work, child benefit and certain other payments.

13. These contributions apply only to the maintenance element of the award. Tuition fees are normally met in full from public

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<sup>1</sup> These contribution scales apply to students beginning their courses in 1988. For students who reached 18 before 15 March 1988 and either began their courses before 1 April 1988 or had attended another designated course in the previous two years the contribution is one-third higher. The reduction in the contribution from 1988 reflects the ending in the 1988 Budget of the opportunity to obtain tax relief on covenanted payments.



funds, and are not subject to parental or other contributions. They are paid direct to the college by the award-making body.

14. In addition to the main rate of grant, supplementary allowances are available, for example to cushion students aged 26 or over against a drop in income when they begin their studies, for students with adult or child dependents, for disabled students, and for extra weeks of study required beyond the period covered by the basic grant.

#### Discretionary awards

15. Awards may also be made at the discretion of the local education authority to students following a degree or comparable course who do not qualify for a mandatory award, because, for example, they do not meet the residence conditions. In such cases the award must be made at the full mandatory rate. Students following other courses may receive discretionary awards at any level the LEA determines; some such awards are made for fees only, and include no maintenance grant.

#### Scotland

16. For students 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 includes all courses which are designated by the DES for mandatory awards. The SED also offers Students' Allowances for certain other courses for which in England and Wales support is offered on a discretionary basis by LEAs or other award-making bodies. The conditions of eligibility for awards are similar to those in England and Wales, though there are minor differences in the previous study rules.



17. The Scottish arrangements also differ from those in England and Wales in the treatment of travel. The rates of maintenance grant are slightly lower, but students may claim repayment of essential travelling expenses in excess of £54 per annum. In England and Wales the grant includes a flat-rate allowance for travelling expenses.

18. The Scottish local authorities also make awards equivalent to the English discretionary awards.

#### Northern Ireland

19. Arrangements in Northern Ireland closely resemble those in England and Wales. The principal difference affects trainee teachers, whose awards are discretionary rather than mandatory, though they are paid at the same rate and are in practice automatically available on obtaining a place at college.



## SURVEYS OF STUDENTS' INCOME AND EXPENDITURE

1. The Department of Education and Science commissioned two surveys, covering undergraduates' and mature students' income and expenditure, which were undertaken in the 1986-87 and 1987-88 academic years respectively. The contractors for the first, Research Services Limited, published their report in April 1988<sup>1</sup>. The report on the survey of mature students is not yet available, though the Government has taken some preliminary findings into account. Some conclusions of the undergraduate survey are mentioned in Chapter II; more detail is given here.

2. The undergraduate survey was based on a representative sample of single undergraduates normally resident in Great Britain, aged under 26, and studying on full-time courses (excluding sandwich courses) in Great Britain for first degrees at universities, polytechnics and other institutions. Interviews were carried out in May and June 1987. The survey was primarily concerned with undergraduates' income and expenditure during the academic year 1986-87, the 38 weeks from October to the following June, but information was also collected about earnings and receipt of social security benefits during the previous Summer vacation. Comparable surveys were carried out in 1974-75 by the Office of Population Censuses and Surveys and in 1982-83 by the National Union of Students (NUS).

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<sup>1</sup> J W P Cornish and R E Windle, "Undergraduate Income and Expenditure Survey 1986/7", Research Services Ltd 1988.



### Income

3. During the 38 weeks of the academic year, undergraduates' mean income was £2,800, made up as follows:

	£
grant	1,120
parental support	1,113
own income	119
board provided by parents	114
loans	99
drawings on savings	96
social security benefits	91
gifts from relatives	49
	<hr/>
	2,800 <sup>2</sup>

4. Undergraduates' main income - the grant and any contribution or other parental support, and a mean of £114 attributed for the value of board provided by parents in the vacations (and, for home-based students, in term) - averaged £2,346. University undergraduates generally received a higher proportion of this as a parental contribution, and female undergraduates had fractionally higher parental contributions than males. Undergraduates from one-parent families (17% of the sample) had main incomes about £100 higher than those from two-parent families. Generally those whose parents were in social grades A and B had larger main incomes; in one-parent families the disparity was almost £240, but in two-parent families it was only £55. Undergraduates with small parental contributions, and those

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<sup>2</sup> The difference between the total and its components is the result of rounding.



relying on parental contributions entirely, had the largest main incomes, though their advantage was not great.

5. On average, undergraduates received in main income £328 more than the maximum gross grant (including additional allowances and extra weeks payments) applying to their place of study. However, around 15% received less than the maximum grant (excluding allowances and extra weeks) - about £280 less on average. This arose where assessed parental contributions were high - typically homes with parents in social grades A and B and no other dependent children. Overall, of those undergraduates whose parents were assessed to make a contribution, 35% did not receive it in full. The comparable figure in the NUS survey of 1982-83 was 46%.

6. In secondary income - from own earnings, loans, drawings on savings, social security benefits and gifts from relatives - undergraduates received on average £454. Undergraduates with large assessed parental contributions had the largest earnings and drew most heavily on savings. Undergraduates from one-parent homes relied more on loans than those from two-parent homes, and drew more on savings. Benefit receipts were higher where parents were in social grades C, D and E.

7. Housing benefit was received by 43% of undergraduates not living in the parental home. The average received was £211, but this varied substantially according to area: in the Midlands the average figure was £121, but in London it was £296. A very small number - under 1% - claimed more than £500 in housing benefit.

8. In addition, 15% of undergraduates claimed other benefits during the academic year. These claimants' mean benefit receipts were £49, but the mean conceals large variations: the median was £8. Most claimants received small sums in refunds of medical and dental charges. A very small number, however, claimed



substantial sums - in one case over £500 - in supplementary benefit or disability allowance.

9. In addition to this income within the academic year, during the long vacation 90% of undergraduates received further income from work, benefits or both. Their average long vacation income was £476. Earnings from employment were reported by 59%: average earnings were £531 (net of tax, other deductions and the direct costs of working) from almost 8 weeks' work. Benefits were received by 58% of undergraduates, averaging £193 over 8 weeks. While total long vacation income hardly varied by social grade, its composition did: where parents were in grades A and B, weekly earnings were higher and benefits were claimed for a shorter period.

#### Comparisons

10. The survey report calculated that, at constant 1987 prices, the purchasing power of undergraduates' total income had risen by about 5% since the NUS survey of 1982-83. A 21% decline in amounts paid to them in the form of grants and other awards (including any parental contribution) had been more than made good by an increase in support from parents beyond the assessed contribution, and by a substantial increase in the amount of housing benefit received. The result was a real reduction in the public funding of their maintenance of about 5% as shown below:



	1982-83(a)	1986-87(a)
	£	£
grants and awards	1441	1142
social security benefits	11	90
covenanted tax rebates	<u>65</u>	<u>211</u>
sub-total	1517	1443
cash gifts from relatives	42	31
term time earnings	19	29
net money from parents	492	826
net miscellaneous income	<u>160</u>	<u>156</u>
	713	1042
total	2230	2486(b)

(a) Based on first quarter 1987 prices.

(b) Does not include the imputed value of board provided by parents (£114), or drawings on savings (£195): these were not calculated in the NUS survey and were therefore disregarded here for comparative purposes.

### Expenditure

11. The survey recorded undergraduates' total expenditure during the 38 weeks of the academic year as £2,882, made up as follows:



	£
rent	779
food and common household expenses	462
entertainment, tobacco and alcohol	399
miscellaneous	252
leisure travel and motoring	227
books, equipment, course travel	172
clothing	132
gifts	118
travel to college	115
payment for parental board	114
fuel	56
post and telephone	56

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2,882<sup>3</sup>

12. Undergraduates' expenditure during the academic year on items classified in the survey as basic - accommodation, food and drink consumed in their accommodation, the imputed cost of parental board, essential travel and necessary course expenses - was on average £1,698. Variations related mainly to their type of accommodation and region, reflecting variations in travel and prevailing rents. The average rent paid in London was £997, compared to £735 elsewhere. Undergraduates with high total incomes did not spend appreciably more than those with low incomes on these basic items.

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<sup>3</sup> The survey was constructed to balance income and expenditure, but total income as recorded exceeded total expenditure by £82. Expenditure figures were based on a diary maintained by students over one week, and a questionnaire asking students to recall expenditure back to the beginning of the academic year. The researchers anticipated a degree of approximation in responses, and concluded that a 3% discrepancy between income and expenditure was acceptable.



13. Expenditure on other items - entertainment, leisure travel, clothing, postage and telephone, gifts and miscellaneous - averaged £1,184. Generally this expenditure was higher for undergraduates in rented accommodation, and lowest for those living in the parental home.

14. Expenditure on entertainment was significantly higher for undergraduates in London than elsewhere. There were also variations associated with type of accommodation. The main variation, however, was the tendency for undergraduates with the highest total incomes (excepting those living at home) to spend most, particularly on eating out and alcohol.

15. Expenditure on course expenses - books, equipment, stationery, photocopying, and course travel - averaged £172. There was considerable variation according to subject of study and type of institution. Course expenditure did not vary significantly by social grade of parents, but undergraduates with high total incomes spent more than those with low total incomes on these items.

16. In the long vacation, 31% of undergraduates incurred additional expenditure on accommodation averaging £157. Housing benefit averaging £153 was claimed by 22%. Both expenditure and benefit claims were highest in London. Other long vacation expenditure was not recorded.

#### Comparisons

17. Total expenditure increased by about 17% in real terms between 1982-83 and 1986-87. Expenditure on board and lodging changed little overall; expenditure on accommodation rose by 20%, and fell by 24% on food and other household expenses. Expenditure on books and equipment fell by 11%. Expenditure



increased on clothing (36%), travel (47%), and entertainment,  
tobacco and alcohol (48%).



## INTERNATIONAL COMPARISONS

Any attempt to compare different countries' systems of student support is beset with difficulties. There is a question of definition: a course that one country classifies as higher education may be categorised at a different level elsewhere. Some support, such as subsidised housing or meals, is provided in kind, and its value is difficult to calculate. Comparisons of the value of support are also sensitive to exchange rate movements. Moreover, such data as are available are often some years out of date, and coverage is not always complete for each country. These difficulties are explored in more detail in DES Statistical Bulletin 4/87, "International Statistical Comparisons in Higher Education".

2. With those limitations, the information presented here is intended to give an impression of the nature of the support regimes operating in a range of countries, their value to the individual student, their cost to the public, and their effects measured by such criteria as participation and numbers obtaining qualifications.

Student support systems

3. Charts A and B with Table 1 summarise the student support systems in a range of European and North American countries.

4. Chart A shows the maximum value of support available to an individual student, and the form it takes. In practice the actual value of the support is generally less, as it is subject to means-testing.



5. It must be read in conjunction with Chart B, which shows the proportion of students receiving this support. In some countries the maximum shown as available in Chart A, while relatively generous in itself, is in fact available to only a small proportion of full-time higher education students.

Charts A and B



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A

## STUDENT SUPPORT: MAXIMUM AVAILABLE AMOUNTS OF GOVERNMENT ASSISSTANCE 1987-88



(1) Main rates, exclusive of allowances, for students living away from home. England and Wales figure weighted to reflect higher London rate of grant. All amounts at 1987 PPP.

(2) Free tuition.

(3) Means-tested exemption from all or part of fees.

(4) Free tuition for assisted students.

(5) Negligible fees available.

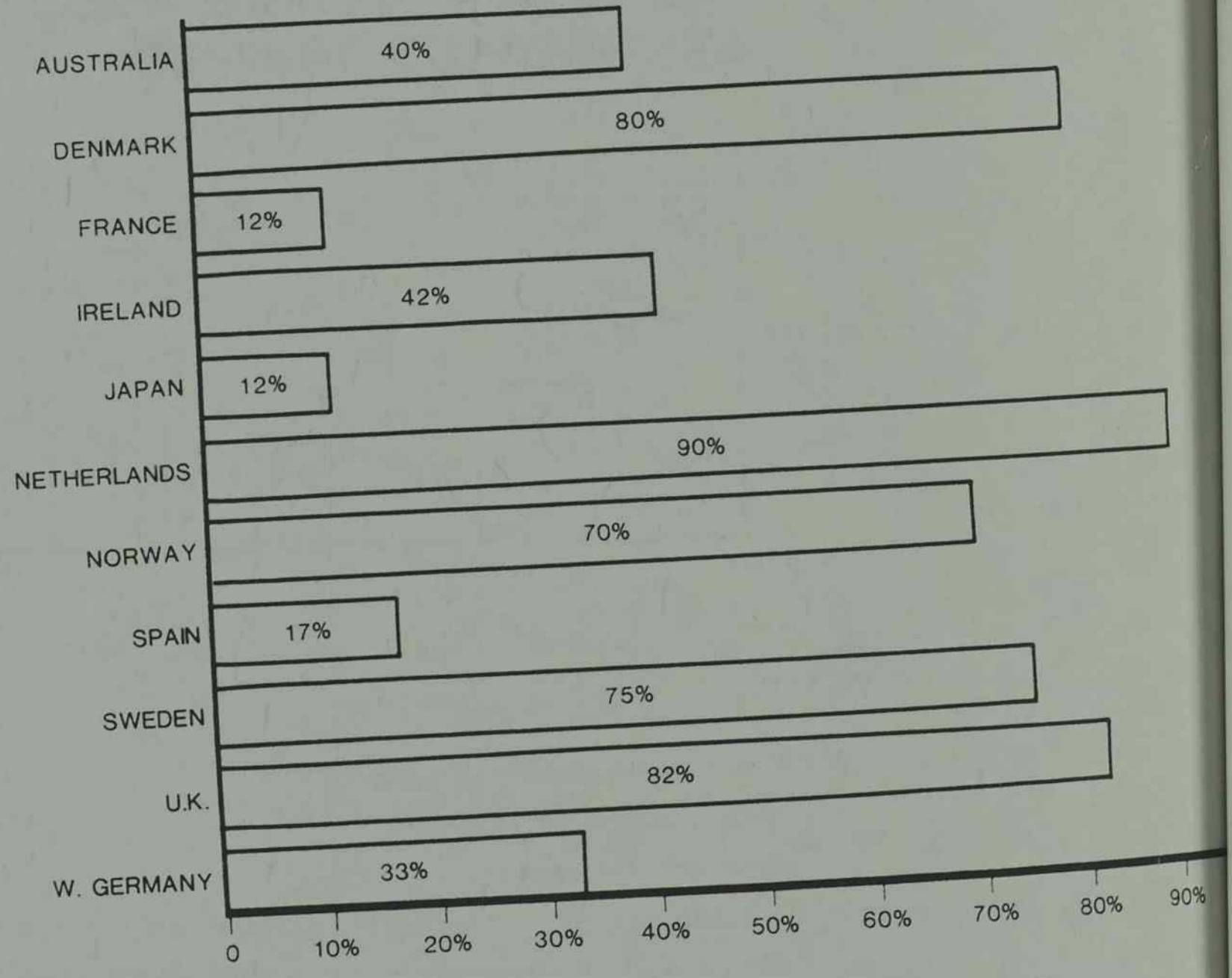
(6) Tuition fees are charged, about £388 by universities and £313 by Higher Vocational Institutions.

(7) National and Local Government Universities charge tuition fees of on average £814 (27% of university students attend such institutions). Fees charged by private universities average £1,970.



B

### PROPORTION OF FULL-TIME HIGHER EDUCATION STUDENT RECEIVING GOVERNMENT ASSISTANCE





6. In some countries the student has to pay tuition fees out of this support. In Japan fees are heavy and in practice absorb a large part of the grant; even the relatively small numbers of students receiving the grant thus have to rely for living costs on other sources of support. A tuition fee is also charged in France, Ireland and the Netherlands, though it is subsidised to varying degrees.

7. So far as Britain is concerned, it is notable that the grant is available to a very high proportion of full-time higher education students. The proportion would be higher still if discretionary awards were included; but for comparative purposes the charts cover only central government support.

8. The value of the grant in Britain is also relatively high. As Chart A shows, the maximum support available is higher in a number of other countries, but in many means-testing is applied more severely. Students in France, Ireland, Japan, Norway, Spain and West Germany consequently receive less support than they would in Britain with comparable parental means.

9. By international standards, the British system is generous in the level of the grant after means-testing, in the proportion of full-time higher education students provided for, and in including free tuition. No other country attempts to provide support at this level to such a high proportion of these students. Generally, the expectation that parents will provide for their student offspring is stronger in other countries than in Britain.

10. The comparisons in Chart A are based on purchasing power parities, which value currencies according to the local cost of goods and services. The effect is to show the value of student support in countries where the cost of living is high - such as Germany or Scandinavia - as less than exchange rates would



suggest. This basis gives the fairest impression of what goods and services a student can in practice buy with the support available.

11. Table 1 compares loan terms in countries where loans apply. The loans are interest-free in West Germany, and in the very small schemes operating in France and Japan. Otherwise, although interest is generally subsidised, it is in many cases close to commercial rates.

Table 1

Table 1

LOAN TERMS



LOAN TERMS

1986

Country	Scheme	Estimated Average total debt at start of repayment £	Interest charges and period of application	Default rate	Number of students involved (Proportion of all full-time first degree students)
Canada(1)	Canada Student Loans Provincial Loans	2985 2066	10.375% from start of repayment n.a.	9% n.a.	117k(30%) n.a.
Denmark(2)	Government Loans Government Guaranteed Bank Loans	2405 n.a.	4% during course, 8% thereafter 11.5-13.5% during course, 12.5-14% thereafter	<10%	11.4k(13%) grants and government loan 14.4k(16%) grants, gov. loan & bank loan 4.2k(5%) bank loan only
France(1)	Government Loans	2545	Free	n.a.	3.5k(<1%)
Japan(2)	Japan Scholarship Foundation	3600	Free 3% from start of repayment	2.3%	228k(12%)
Netherlands(3)	Government Loans	940	6% from start of repayment	n.a.	n.a.
Norway(2)	Government Loans	6165	11.5% from end of course	<1%	54k(59%) grants and loans 6.4k(7%) loans only
Sweden(4)	Government Loans	10400	4.2% from time of loan	2%	102.5k(65%) grants and loans
USA(3)	Robert T Stafford Loan Program Perkins Loans	5225 2400	8% for 4 years from start of repayment, 10% thereafter 5% from start of repayment	7% 13%	2.3m(20.5%) 630k(5.6%)
West Germany(2)	Government Loans	5720(5)	Free	<1%	460k(33%)

(1) Based on 1984/5 figures. (2) Based on 1985/6 figures. (3) Based on 1986/7 figures. (4) Based on 1983/4 figures.

(5) The top 30% academically will have this reduced by 25% and other substantial reductions in debt are available.



12. The interest-free loans in France are available to help students with financial emergencies, not for routine living costs. In 1985-86 under 1% of the student population received such loans, averaging £625. In Australia government funds allocated to institutions similarly provide for emergencies. In 1986 about 3% of students received loans averaging £250.

13. Several countries are reconsidering their student support arrangements. Both Denmark and Sweden plan to increase the proportion of grant, and reduce the proportion of loan, in their support systems. The present Dutch system, relatively recently introduced, is also subject to review. In Australia, the Government is introducing a reform affecting tuition rather than living costs: students are to be required to repay about 20% of the tuition costs of the courses they have attended through an income tax surcharge.

#### USA

14. The charts do not attempt to summarise the complex arrangements developed in the United States. Students rely on a combination of Federal, State and institutional funds, and financial aid officers in institutions help them draw up individual support packages.

15. Federal grants are available under the Pell Grant Program (maximum £1,315 pa in 1986-87); the Federal Supplemental Opportunity Grant Program (maximum £2,285, or one half of the total support provided from other sources, whichever is less); and, where matching funds are provided by individual States, the State Student Incentive Grant Program (maximum £1,430). Federal loans are available under the Robert T Stafford Loans Program, formerly the Guaranteed Student Loan Program (maximum £9,857 for an undergraduate course) and the Perkins Loan Program (maximum



£9,855 for an undergraduate course). Students may also participate in the College Work-Study Program, under which jobs are available in higher education institutions or in other public or private non-profit organisations: funding is divided between the individual institutions (20%) and Federal Government.

16. Students' financial resources determine the amounts available from the federally funded schemes. Pell Grants, which serve as the foundation for other Federal grant, work and loan schemes, and Perkins Loans are targeted at students from low-income backgrounds; students from families with above-average incomes cannot generally receive assistance under either. Funds provided by the Federal Supplemental Opportunity Grant Program, which are administered by individual institutions, and the State Student Incentive Grant Program, administered by each State, are allocated to students in particular need, most typically to those in receipt of Pell Grants. Students in need receive first consideration for part-time employment under the College Work-Study Program. Eligibility for Stafford Loans is somewhat wider; however, students whose families have above a moderate income (about £17,000 in 1986-87) must demonstrate financial need.

17. In 1986-87 18% of the 11.2m undergraduates received Pell Grants of on average £850. Five per cent received Supplemental Educational Opportunity Grants of on average £415, and about half that number received State Student Incentive Grants averaging £285. Loans to the 20% of undergraduates who took up Stafford Loans averaged £1,305, and the 5% using Perkins Loans received on average £600. About 5% of undergraduates had earnings under the College Work-Study Program, averaging £560.

18. In addition to Federal funds, all State governments provide some form of financial assistance to needy students. There is wide variation in amounts. In total, State aid in 1984-85 came



to £715m - about 10% of the value of Federal funding for student support.

19. The higher education institutions are the third main source of support. In 1984-85 institutional aid amounted to £1.5bn - about the equivalent of 20% of the Federal programme.

20. Students are required to pay their own tuition fees. In 1984-85 these averaged £280 at publicly maintained institutions, and £3,033 at private institutions. The fee due is however taken into account in the assessment of grant or loan entitlement, and many institutions provide direct assistance to needy students.

21. Forty-six per cent of all undergraduates received some sort of financial aid during the 1986-87 academic year. Thirty-five per cent received aid from the Federal Government, 15% State aid, 14% institutional aid and 7% assistance from other sources, such as scholarships and sponsorships. The average amount of aid received was £2,180. Federal assistance averaged £1,700 per student aided, State assistance £730, institutional aid £1,200, and other forms of support £810. Forty-one per cent of those who received aid relied only on grants. Fifteen per cent received only loans. The remainder depended on a combination of grants, loans, work-study and other sources.

22. Repayment of the Perkins and Stafford Loans begins six months after completion of studies and must generally be completed within five to ten years. Fixed interest rates of 5% (Perkins) and 8% (Stafford Loans) are applied from the beginning of the repayment period. Repayments may be deferred if the borrower continues in education with assistance under either scheme, is unemployed, joins military service, the Peace Corps or the domestic ACTION programme, or if the borrower is a woman with pre-school age children who is just entering the work force. Once repayments have started they must continue without further



deferral. The debt can be reduced if the borrower becomes a full-time teacher of a shortage subject, and is cancelled in cases of permanent total disablement. The default rate on the Stafford Loans is about 7%, and about 13% for Perkins Loans.

23. Revisions of these programmes planned for 1988-89 will increase students' dependence on loans, through an expansion of the Stafford Loans Program in particular. Requirements for the institutions to provide matching funding are also to be increased<sup>1</sup>.

#### Sharing of Costs

24. A recent study calculated the relative shares of parents, the individual student, the state and philanthropic funding in five countries. The author took account of a range of parental incomes, in order to show the effects of means-testing. The results of this analysis are reproduced below in Charts C, D and E, showing low, middle and high income backgrounds respectively.

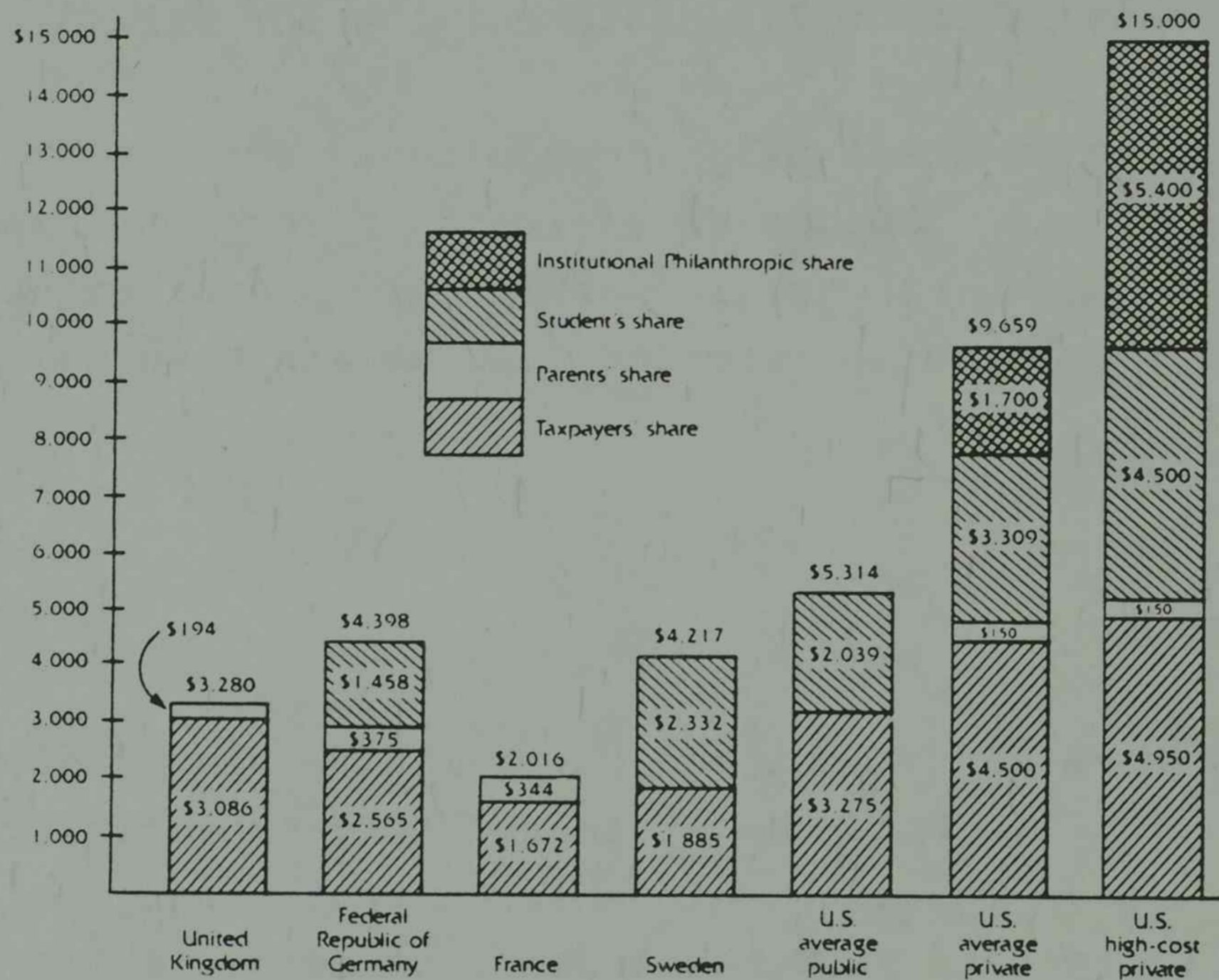
#### Charts C, D and E<sup>2</sup>

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<sup>1</sup> Italy is also not represented on Charts A and B. Educational allowances are awarded on a competitive basis by each region to students whose parental income does not exceed £2,005 p.a. (1986-87). The level of support is linked to scholastic achievement and varies between regions according to regional resources and to whether the student is living in the parental home. The amounts available range from minima of £105 to £210 to maxima of £520 to £1,040 p.a.

<sup>2</sup> Reproduced with permission from "Sharing the Costs of Higher Education: Student Financial Assistance in the United Kingdom, the Federal Republic of Germany, France, Sweden, and the United States" by D. Bruce Johnstone, copyright c 1986 by College Entrance Examination Board, New York.





**FIGURE 7.3** Sharing the costs of higher education for low-income families in the United Kingdom, Federal Republic of Germany, France, Sweden, and the United States, 1985-86 (see notes below).

*United Kingdom:* "Low income" is under £8,520 [\$14,368], which is the start of the expected parental contribution per Figure 2.1. Total cost is NUS estimate of £1,945, per Table 2.1. The taxpayer portion is the "elsewhere-than-London" mandatory grant of £1,830 [\$3,086]. The remaining need is assumed to be a family contribution, per Chapter 2.

*Federal Republic of Germany:* "Low income" is under DM23,820 [\$11,028], which is the start of the expected parental contribution per Figure 3.1. Total cost is the "more adequate budget" estimate of DM9,500 [\$4,398], per Table 3.1. The taxpayer portion is the "effective grant" within the 10-month maximum BAföG with an 8 percent discount rate assumption per Table 3.3, or DM7,880 [\$3,648]  $\times$  (1.00 - 0.297) = DM5,539 [\$2,565]. The student contribution is the "true loan," or DM7,880 [\$3,648]  $\times$  .297 = DM2,340 [\$1,083] plus one-half of the remaining need of DM1,620, or DM810 [\$375]. The parental contribution is the remaining DM810 [\$375].

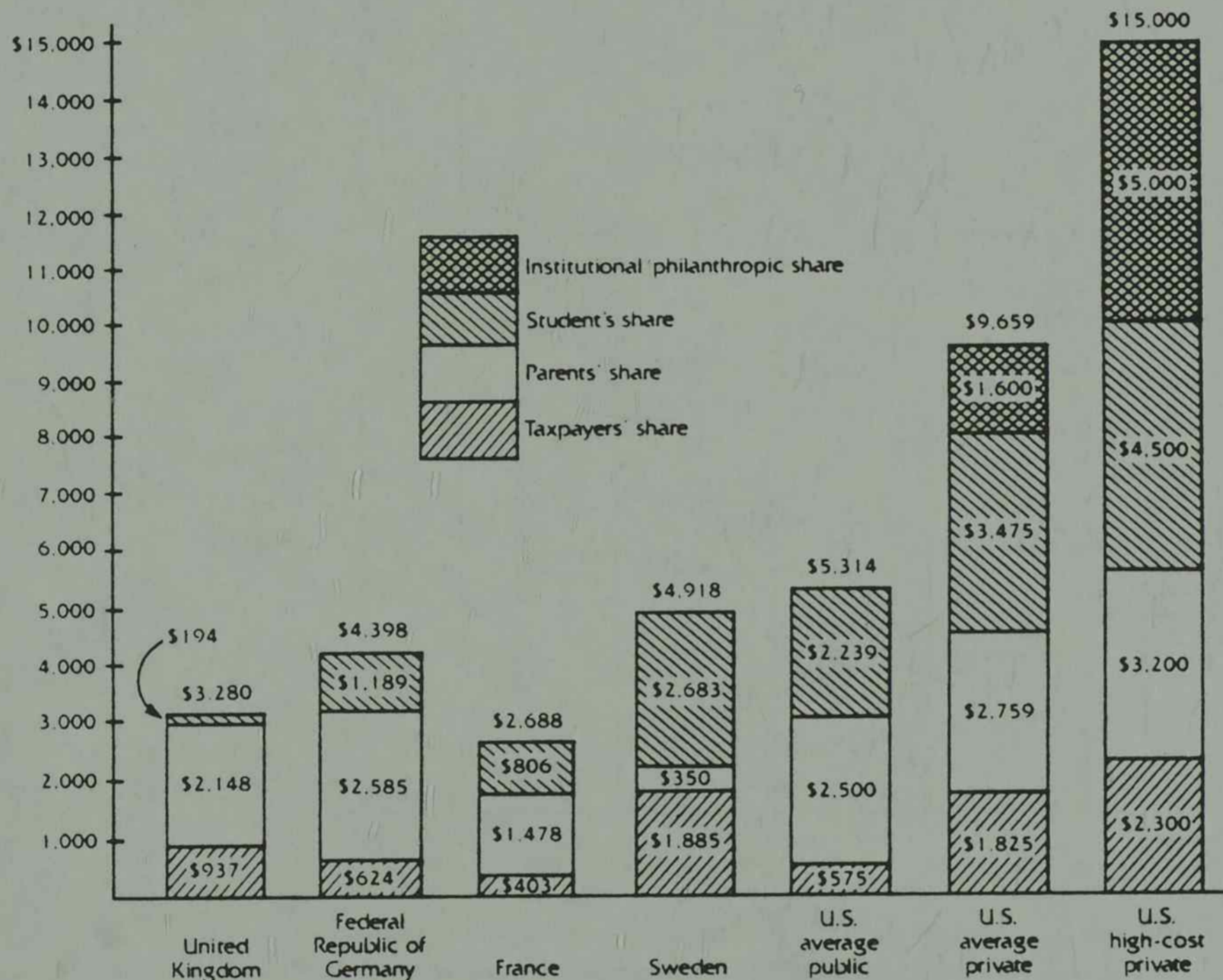
*France:* "Low income" is 50,000F [\$6,720], which is still high enough for a 12-point family to be eligible for only the third largest grant. Total cost is assumed to be \$15,000F [\$6,720], per Table 4.6. The taxpayer contribution is a *bourse* of 10,440F [1,468] plus 2,000F tax relief for a total of 12,440F [\$1,672]. Net (after tax relief) parental contribution, cash and in-kind, is 2,560F [\$344] per Table 4.6. No student contribution is assumed for *bourse* recipients, per text.

*Sweden:* "Low income" is assumed to be approximately 90,000 Skr [\$12,000], a level at which the Swedish parent, who is not officially expected to contribute anything at any income level, would probably be unable to supplement the Study Means total of 31,627 Skr [\$4,217]. The total cost is assumed to be the Study Means, per Table 5.1. The taxpayer and student portions are per Table 5.4.

*United States:* "Low income" is assumed to be in the \$10,000-\$15,000 range. The total cost and the taxpayer, parental, student, and institutional shares are all per Table 6.5.

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**FIGURE 7.4** Sharing the costs of higher education for middle-income families in the United Kingdom, Federal Republic of Germany, France, Sweden, and the United States, 1985-86 (see notes below).

**United Kingdom:** "Middle income" is assumed to be £15,000 [\$25,290]. Total cost is N.U.S. estimate of £1,945 [\$3,280] per Table 2.1. The parental contribution is £1,274 [\$2,148] per Table 2.3. The taxpayer portion is the mandatory grant (elsewhere than London) of £1830 [\$3,086] minus the expected parental contribution, or £556 [\$937]. The student contribution is the remaining need, or £115 [\$194].

**Federal Republic of Germany:** "Middle income" is assumed to be DM36,000 [\$16,667]. Total cost is the "more adequate" budget of DM9,500 [\$5,398] per Table 3.1. The parental contribution is DM5,583 [\$2,585] per Table 3.4. The maximum BAföG is assumed to be DM7,500 for 10 months, DM1,917 [\$888] of which (7,500-5,583) would be awarded. The taxpayer contribution is the "effective grant" of  $1,917 \times (1.00 - 0.297) = \text{DM}1,348$  [\$624] per Table 3.3, assuming an 8-percent discount rate. The students' portion is the "true loan" of  $\text{DM}1,917 \times 0.297 = \text{DM}569$  [\$263] plus the gap of DM2,000 [\$926] between the total cost and the maximum BAföG, or DM2,569 [\$1,189].

**France:** "Middle income" is 125,000F [\$16,801] per Table 4.6. Total cost is 20,000F [\$2,688] per Table 4.6. The taxpayer contribution is 3,000F [\$403] of tax relief; the parental contribution, net of tax relief, cash, and "in-kind," is 11,000F [\$1,478]; the student contribution, 6,000F [\$806] in earnings, all from Table 4.6.

**Sweden:** "Middle income" can be anywhere in the range of 150-225,000 Skr [\$20-30,000], as there is no means testing or expected parental contribution. The total cost is the "moderate budget" per Table 5.4. The taxpayer contribution is 14,134 Skr [\$1,885]. Students pay their portion of study means and split the needed supplement of 5,258 Skr [\$701] with their parents, for net contributions of 2,629 Skr [\$350] and 20,122 Skr [\$2,683] for parent and student respectively per Table 5.4.

**United States:** "Middle income" is assumed to be in the range of \$30-\$35,000. The total cost estimates and the estimated taxpayer, parental, student, and institutional shares are all per Table 6.5.

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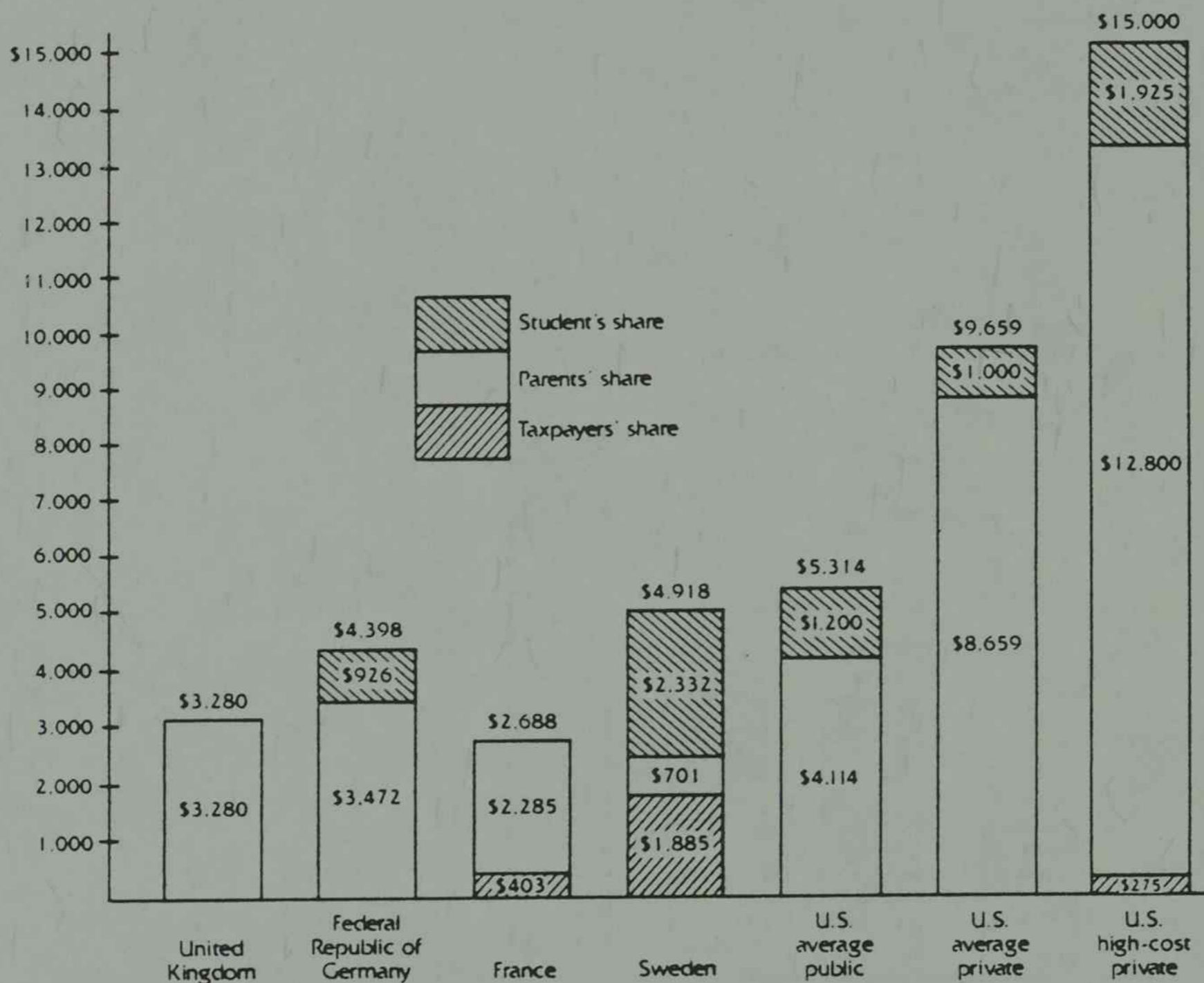
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**FIGURE 7.5** Sharing the costs of higher education for high-income families in the United Kingdom, Federal Republic of Germany, France, Sweden, and the United States, 1985-86 (see notes below).

*United Kingdom:* The total cost is the NUS estimate of £1,945 [\$3,280] per Table 2.1. High-income families are ineligible for taxpayer-borne contributions, and students are discouraged from working or borrowing, so the entire cost is assumed to be borne by parents.

*Federal Republic of Germany:* The total cost is the "more adequate" budget of DM9,500 [\$4,398] per Table 3.1. High-income families are ineligible for BAföG, so there is no taxpayer contribution. Parents are assumed to contribute what would have been the BAföG, or DM7,500 [\$3,472]; students contribute DM2,000 [\$926] to make up the full budget.

*France:* The total cost is 20,000F [\$2,688] per Table 4.6. The taxpayer contribution is 3,000F [\$403] of tax relief. High-income parents are assumed to provide the remaining net 17,000F [\$2,285].

*Sweden:* The total cost is the "moderate budget" per Table 5.4. The taxpayer and student contributions are 14,134 Skr [\$1,885] and 17,493 Skr [\$2,332] respectively per Table 5.4. The parents are assumed to contribute the needed supplement of 5,258 Skr [\$701].

*United States:* "High income" is beyond the range of either taxpayer or institutional/philanthropic assistance at the high-cost colleges. The parent and student contributions are per Table 6.6.

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These tables show that, in the case of a low income family, the UK taxpayer contributed more than in any of the other countries surveyed except the USA, where the taxpayer contributed a smaller proportion of a larger support bill. The tables also show that in countries other than the UK, the burden that here falls on the parents was shared between the parents and the students.

These findings are in line with the statistics on costs presented in Chapter II, which show that UK public expenditure on student support is relatively substantially greater than in other countries. In other countries a higher proportion of students' living costs is borne by parents, and by the students themselves.

#### Participation in higher education

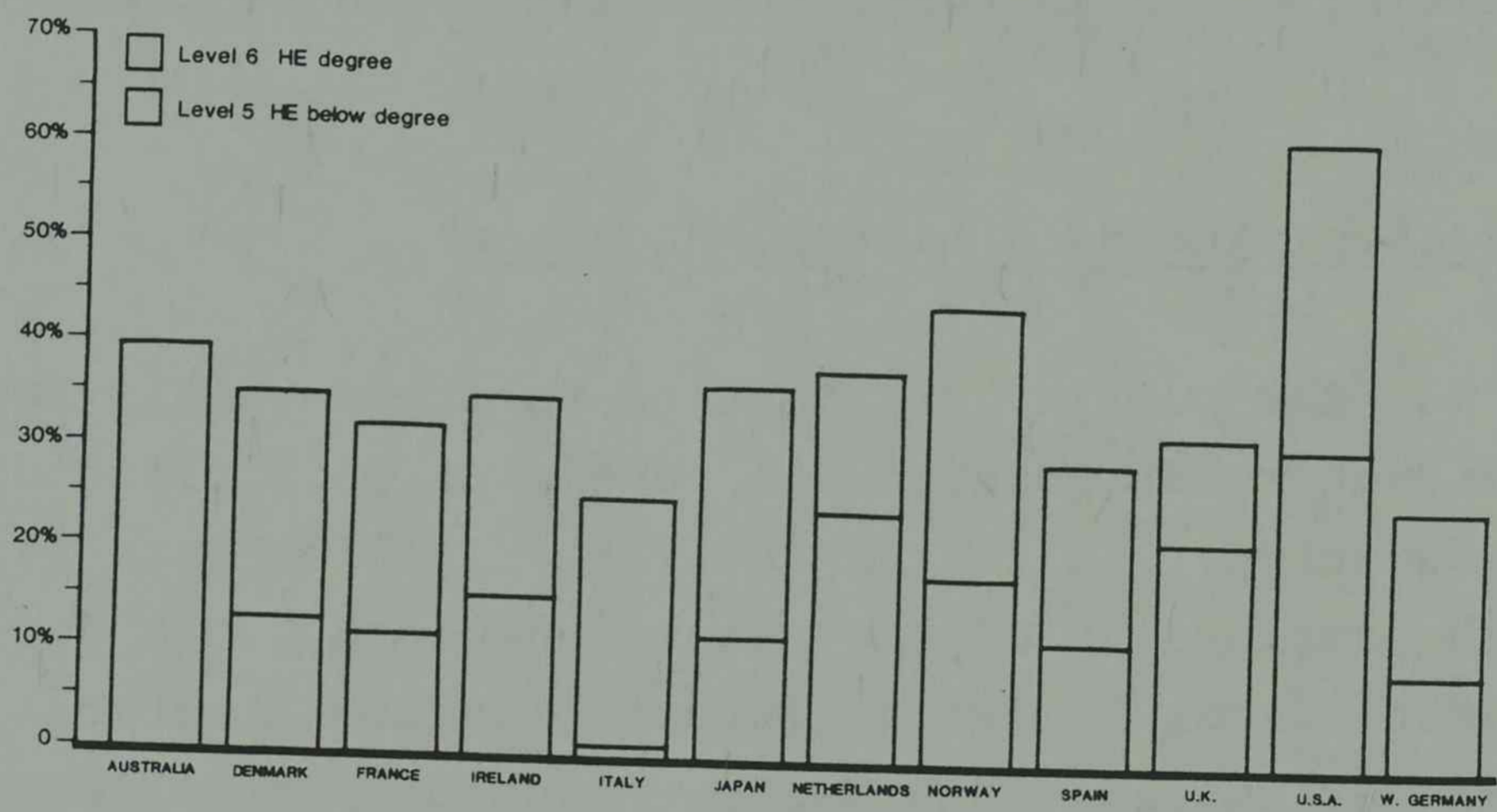
25. The public contribution to students' living costs has no direct relationship with levels of participation in higher education. In the UK the participation rate has increased while the real value of the maintenance grant has declined. The DES Statistical Bulletin "International Statistical Comparisons in Higher Education" showed a range of participation rates between 27% and 60%, with the UK at 31%. Chart F presents more recent data for a wider range of countries.

#### Chart F



F

### NEW ENTRANTS TO HIGHER EDUCATION AS PERCENTAGE OF THE RELEVANT AGE GROUP 1984 OR 1985



- (1) Norway - 1983, Italy & Japan - 1986
- (2) Norway, Ireland & Netherlands - partly estimated. Australia - no level split.
- (3) Excludes post-graduate, overseas & private entrants, includes DHSS nursing/para-medical students.
- (4) Includes private colleges.



26. Potential students' decisions about participating in higher education do not depend on financial considerations alone. The chart confirms that there is no direct correlation of either the quantity of support or its form with participation rates. The rates are similar in Japan and the Netherlands, though there are wide disparities in the availability of support. In the USA the complexities of the system, and the extent of reliance on loans, do not inhibit an exceptionally high participation rate.

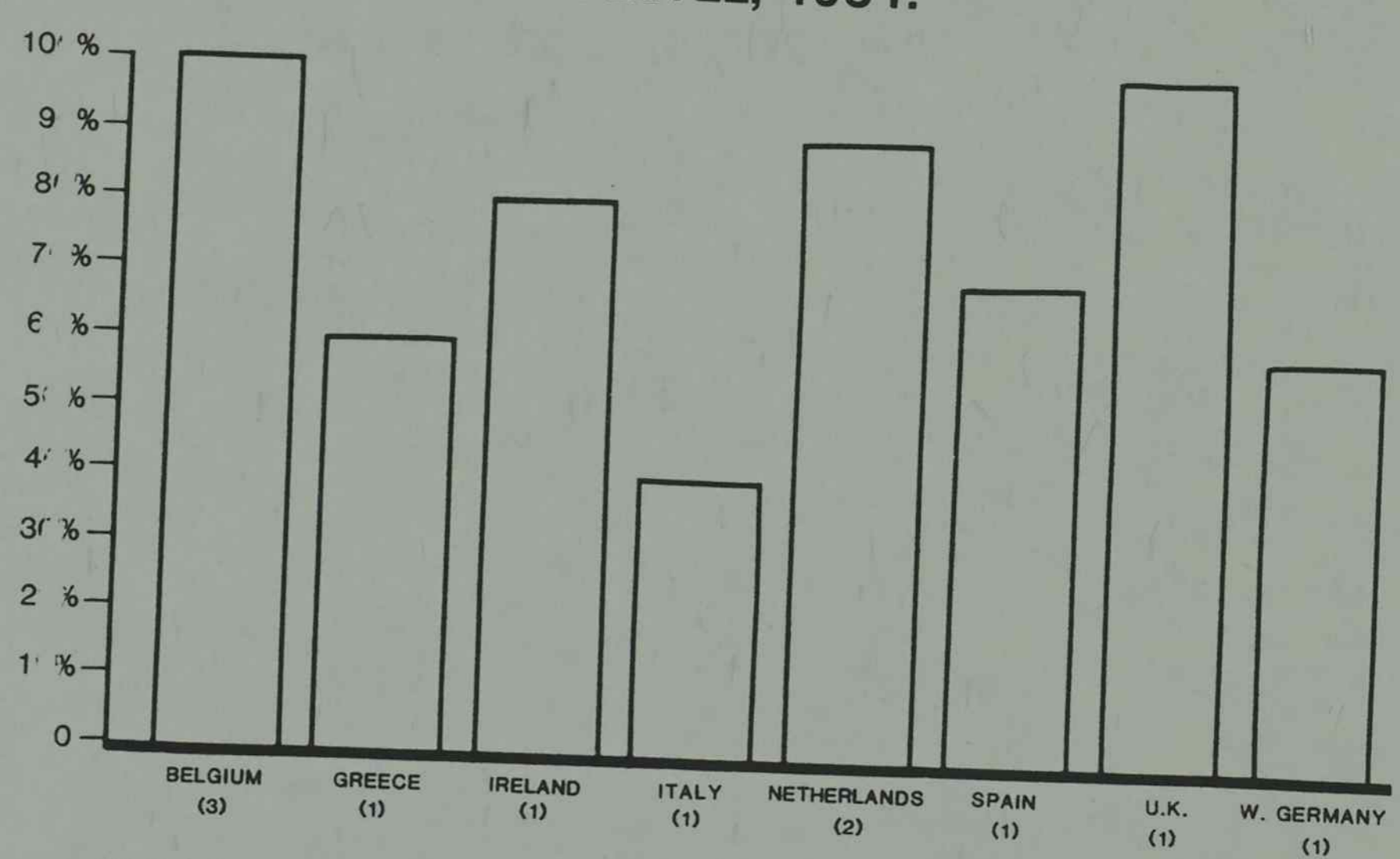
27. Another measure of the effectiveness of student support systems in promoting recruitment is the proportion of the adult population with qualifications obtained in higher education. As Chart G shows, this proportion is high in the UK.

Chart G



G

### PERCENTAGE OF THE ADULT POPULATION QUALIFIED AT HIGHER EDUCATION LEVEL, 1981.



- (1) Excludes those in full-time education.
- (2) 10% males, 20% females were unallocated by level.
- (3) 3% males, 4% females were unallocated by level.

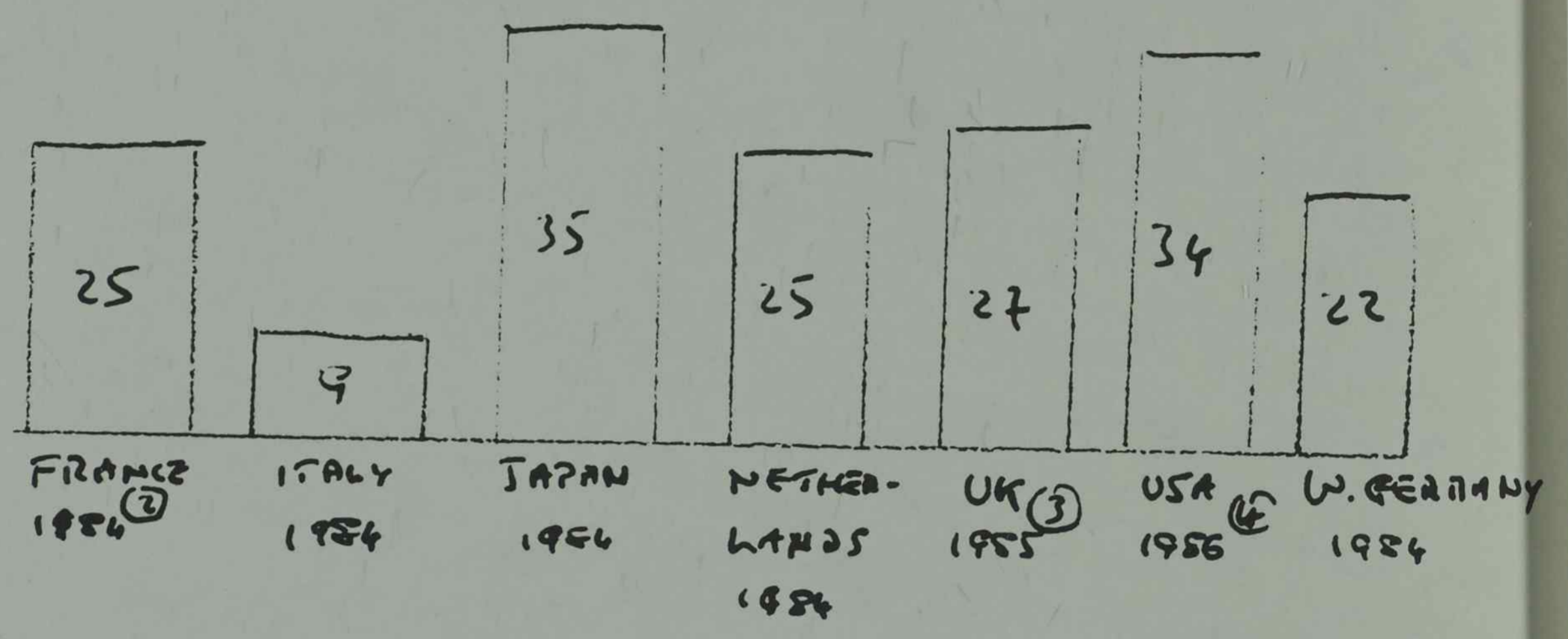


28. The proportion of students in higher education obtaining a qualification is also high in the UK. Chart H shows the percentage of students obtaining degree or sub-degree higher education qualifications.

Chart H



QUALIFICATIONS AWARDED IN HIGHER EDUCATION AS PERCENTAGE OF RELEVANT AGE GROUP<sup>(1)</sup>



- (1) Derived year group for new entrants plus typical duration of study
- (2) Partly estimated.
- (3) Includes public sector professional courses and nursing and paramedical courses ~~at~~ Department of Health establishments; excludes private sector
- (4) Includes qualifications from private colleges.



(H)

29. The high position of the UK on these measures reflects the relative efficiency of higher education in the UK, where by international standards a high proportion of students complete their courses. This may relate to the availability of grants to support full-time study, but other factors are at least as powerfully involved: the degree of specialisation in A level courses, the selectivity of entry to higher education in the UK, and the general expectation that the student phase of life does not continue beyond one's early twenties.

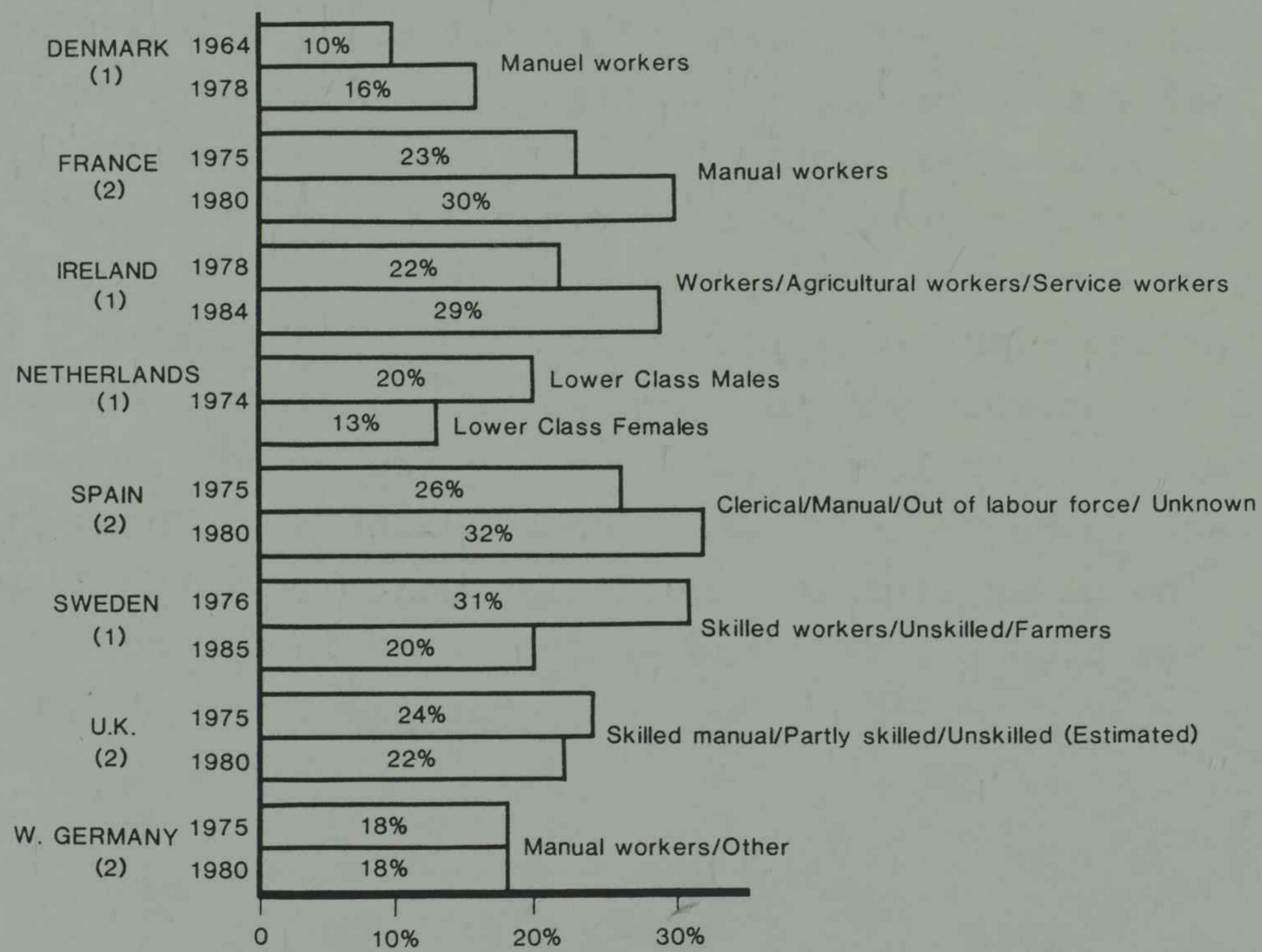
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30. A common objective for student support systems is to ensure, at a minimum, that they present no obstacle to working class participation. Here international comparisons are particularly difficult, as the information available relates to the proportion of students coming from working class backgrounds as defined by each country - no standard social class classification exists. Differences between countries on this measure may simply show that the working class forms a larger or smaller proportion of the total population in one country than another. Changes over time within a country may also reflect growth or shrinkage of the working class as a proportion of the population. This measure does not show whether someone from a working class background is more or less likely than someone from a more advantageous background to undertake higher education. These limitations must be borne in mind in considering Chart I, which shows the working class proportion in the student body in a range of countries.

Chart I



### PERCENTAGE OF UNIVERSITY ENTRANTS/STUDENTS FROM THE "WORKING CLASS" (As defined by each country)



(1) SOURCE: DES Survey of Foreign Support Systems.

(2) SOURCE: OECD.



32. As with participation overall, the chart suggests no clear correlation between form or quantity of student support and working class representation. Its growth in Spain and France may be attributed to the severity of the means tests applied to the support, which is effectively available only to low income families. The reduction in Holland, Sweden and the UK may relate to a reduction in the size of the working class in the population overall.



## PERSONAL AND SOCIAL RATES OF RETURN ON HIGHER EDUCATION

1. Paragraphs 2.25 and 2.26 of the White Paper argue that the personal rate of return on students' investment in higher education is significantly greater than the social rate of return on the nation's investment. This Annex does not purport to treat the question exhaustively, but briefly sets out the line of argument leading to that conclusion.
2. From the point of view of economic analysis, discounting non-financial considerations, estimates of the personal rate of return on degree-level qualifications can be made by treating higher education as a process by which individuals invest in acquiring a degree by incurring present costs (including the "opportunity costs" of foregone earnings) with the intention of gaining future career benefits. This is an investment decision, and if costs and benefits are restricted to measurable financial quantities it is possible to deduce a return on that investment which can then be compared with the returns on other options open to the individual. There is by analogy a social rate of return which relates public investment in higher education to its presumed general labour market benefits.<sup>1</sup>
3. In calculating both the personal and the social rates of return the benefits from higher education are taken as the extra earnings accruing to individuals because of their higher education, measured

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1. The public costs of higher education are taken as the costs of tuition; they exclude the costs of maintenance on the basis that these represent in effect a transfer of income to students, and do not have real resource costs. The public benefits of higher education are based on the estimated labour market benefits from higher education.



by comparing the earnings of graduates with those of people whose highest qualification is A-levels<sup>2</sup>. But to attribute all the difference in earnings to initial higher education would be to ignore the contribution of innate ability. It is therefore usual to discount that contribution by applying an "alpha factor" representing an assessment of the extent to which the difference in earnings is explained by higher education alone.

4. The latest available estimates for the social rate of return are for 1985. The following figures show social rates of return averaged over the period 1981 to 1985, in order to increase sample sizes and eliminate year-to-year fluctuations.

Social rates of return: male graduates versus 2+ A-levels.

<u>1981-1985</u>	Including Research Costs			Excluding Research Costs		
	Alpha Factor			Alpha Factor		
	<u>1</u>	<u>0.8</u>	<u>0.6</u>	<u>1</u>	<u>0.8</u>	<u>0.6</u>
	%	%	%	%	%	%
Social Sciences	11.0	10.0	8.0	12.0	10.5	9.0
Engineering	6.5	5.5	4.5	7.5	6.5	5.0
Sciences	5.0	4.0	3.0	6.0	5.0	4.0
Arts	0.5	< 0	< 0	0.5	0	< 0
ALL SUBJECTS	7.0	6.0	5.0	8.0	7.0	5.5

5. Figures for 1985 would generally be one or two percentage points higher than those quoted above; but estimates for arts subjects in particular have been much higher since 1983, and in 1985 stood at around 5 per cent. It also seems likely that the

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2. Lifetime earnings are measured by using the earnings of a cross-section of people of different ages and qualifications and assuming that these represent the prospects for the current outflow of new graduates. For the personal rate of return to the individual earnings are measured as take home pay, but for the social rate of return gross earnings updated for employers' National Insurance contributions are used. Both sets of earnings are also updated equally to allow for general growth in the economy which is assumed to keep percentage earnings differentials unchanged.

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allowance for 2% growth in future earnings and differentials may be an under-estimate in the light of the UK's longer-term growth prospects.

6. Estimates of the personal rate of return on higher education are analogous to the social rate of return, but cover the costs and benefits of a degree to the individual. They therefore exclude tuition expenditure; include the value of the maintenance award as an offset to earnings foregone; and measure earnings net of tax. The latest available estimates of the personal rate of return are as follows:

Personal rates of return: Male graduates: versus all A-levels

<u>1981 - 1985</u>	Alpha factor		
	<u>1</u>	<u>0.8</u>	<u>0.6</u>
	%	%	%
Social Sciences	32.5	29.5	26.0
Engineering	34.0	30.0	25.5
Sciences	23.5	21.5	19.5
Arts	10.0	9.5	8.5
ALL SUBJECTS	27.5	25.0	22.0 <sup>3</sup>

7. On this analysis the personal rate of return on higher education is a great deal higher than the rate of return to society in

3. Note to the tables

The rates of return are based on comparisons between graduates, and non-graduates with (two or more A-levels). Earnings growth, and the growth in pay differentials, were assumed to be 2% per year. Course costs were taken from DES estimates of unit costs per graduate. Research costs (ie time spent by academic staff on research rather than teaching) were assumed to account for 30% of the costs of tuition across all subjects. Earnings figures came from the annual General Household Survey (GHS). The GHS sample is around 500 male graduates each year, and after splitting by subject group and age group the individual sample cells are fairly small even after grouping several years' data. Higher degree graduates are included but their numbers are too small to make any difference to the estimates.

A levels (in the case of the social rate,



general. It is also well above that available on almost all other forms of investment. On the face of it, if these figures represent a fair proxy for the individuals' perceptions of the financial benefits of higher education, there would be a strong incentive for individuals to enter higher education, irrespective of the level of public investment.

8. Rate of return analysis has its limitations. Nevertheless, the conclusion that there is a marked divergence between personal and social rates of return is likely to hold under any realistic scenario relating to graduate earnings. *The rate of return approach* is supported by the findings of other forms of labour market analysis. The persistence of earnings differentials over a working life, for example, is consistent with what is known about qualification-related employment differences at various ages. The compression or expansion of earnings differentials over particular periods of time also seems to reflect evidence from first destinations surveys about the changing pressure of the demand for graduates relative to their supply.



## THE FINANCIAL EFFECTS OF THE LOAN SCHEME

The table below shows an estimate of the net effect on the Exchequer of introducing the loan scheme, compared to continuing the existing system of support for students' living costs. It is expressed in constant 1990-91 prices.

2. The estimate is based on the hypothesis that the number of students eligible for loans grows in line with the projection shown in Chart 5 up to the end of the century, then remains constant thereafter. The grant (including contributions) is assumed to increase in line with the GDP deflator up to 1990-91. Thereafter inflation is assumed to run at 3% annually. The student's total resources are increased annually by that factor. This increase is made available by increasing the loan facility only. The grant and contributions remain fixed at their 1990-91 value. The effect is that over time the loan facility represents an increasing proportion of the student's total resources. This continues up to 2007-08, when the loan and the grant (including contributions) are roughly equal. Thereafter the annual uprating for inflation is applied to the two components equally. For the purpose of estimating the cost of continuing present policies, it is assumed that the average welfare benefit receipts of the students remain constant at the forecast 1990-91 level.

3. The estimate of the outlay on loans is highly sensitive to the assumptions made about the numbers taking advantage of the loan facility and the size of their loan. The estimate is based on the assumption that 80% of the loan facility available each year is taken up. That is consistent with 80% of eligible students taking up the full facility, or all taking up 80% of the facility, or some mix of the two. An 80% take-up rate is high by



comparison with loan schemes operating in other countries: the estimate is deliberately conservative. If take-up were lower, loan outgoings would be reduced, as would eventual repayments.

4. The estimate of repayments depends on the assumptions made about prospects for graduate employment and earnings, and about the numbers whose repayments are deferred or who default. For this purpose a cross-sectional analysis of graduate earnings has been undertaken, based on the General Household Survey, so as to construct a profile of graduate earnings over time. An adjustment is included for women's rate of participation in the labour market. On that basis, the estimate takes the assumption that between 10% and 15% of graduates will be unable to make their repayments in any year because their income is low, and that of the remainder a further 10% will default. These again are deliberately conservative assumptions.

5. The estimate is based on the repayment regime described as Option A: repayments are deferred when income is less than 85% of the national average, and the repayment period is fixed in relation to the size of debt, being five years on average initially, rising to ten years on average from the turn of the century. Other regimes would affect the pace at which repayments counter-balance outgoings.

6. The table projects the financial effects of the new regime up to the year 2027 (years are academic years). Beyond that date, loan outgoings and repayments stabilise, subject to fluctuations resulting from changes in student numbers. In the table, plus figures are costs, minus figures are savings. The basis is the United Kingdom.



COSTS AND SAVINGS

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Change in grant	0	-22	-42	-61	-78	-95	-111	-131	-152	-172	-190	-206	-222	-236	-251	-265	-279	-292	-292	-292
Net change in benefits	-65	-65	-64	-63	-62	-59	-59	-62	-63	-65	-65	-65	-65	-65	-65	-65	-65	-65	-65	-65
Gross loan outlay	167	193	215	236	255	274	296	324	355	384	409	428	448	467	486	504	522	538	538	538
Loan repayments	0	-2	-9	-21	-39	-62	-83	-102	-119	-130	-142	-155	-176	-192	-202	-210	-217	-219	-230	-250
PSBR EFFECT	103	105	102	93	78	59	41	29	22	17	11	2	-14	-25	-32	-37	-40	-39	-49	-70
ACCESS/FE FUNDS	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17
TOTAL PSBR EFFECT	120	122	119	110	95	77	58	46	39	34	29	19	3	-8	-15	-19	-23	-22	-32	-53

continued ...

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	
Net change in grant	-292	-292	-292	-292	-292	-292	-292	-292	-292	-292	-292	-292	-292	-292	-292	-292	-292	-292	-292
Net change in benefits	-65	-65	-65	-65	-65	-65	-65	-65	-65	-65	-65	-65	-65	-65	-65	-65	-65	-65	-65
Gross loan outlay	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538	538
Loan repayments	-274	-295	-312	-328	-344	-356	-365	-373	-381	-386	-392	-396	-403	-405	-407	-409	-410	-410	-411
PSBR EFFECT	-94	-114	-130	-147	-162	-175	-184	-193	-201	-206	-210	-216	-223	-225	-227	-227	-228	-230	-230
ACCESS/FE FUNDS	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17
TOTAL PSBR EFFECT	-71	-97	-113	-130	-145	-158	-167	-176	-184	-188	-193	-199	-206	-208	-210	-210	-211	-212	-212



## BASIS OF CONTRIBUTION

1. The contributions due from parents or spouses are related to income. However, gross income is not taken directly into account. Gross income is reduced by a number of allowances, parallel to the allowances available against income tax. The contribution is then calculated against the income remaining, known as residual income. Fuller details are in Annex A.

2. This system has two disadvantages.

- (i) The range of allowances is subject to criticism as not being comprehensive. In particular, while a deduction is made for mortgage interest payments, no deduction is allowed for rent. A family with a mortgage thus benefits from both income tax relief on the mortgage interest, and a reduced contribution, while a renting family receives neither advantage.
- (ii) The requirement to declare all the details needed to assess contributions is seen by some parents as a nuisance or even an intrusion. Some decline to have their income assessed, with the result that the student receives no maintenance grant. The off-putting complexity of the forms involved was criticised by the House of Commons Education, Science and Arts Committee (First Report 1986-87, HMSO 1986). LEAs similarly find calculating the deductions administratively cumbersome.

These difficulties would be avoided if contributions were based on gross rather than residual income.



3. The intention underlying the present system is that its effect should harmonise with that of income tax. Where it is judged right that income tax relief should be given to support a particular activity, the student support system reinforces that effect. However, this is desirable only if it is assumed that the income tax system unaided has insufficient effect in the economy; and if the income tax system is insufficient on its own, it is anomalous that the reinforcement applies only to families containing students, not others.

4. The effect of basing contributions on gross rather than residual incomes would be felt mainly in families where a deduction is claimed for mortgage interest. Families where the other deductions are claimed would also find that they were expected to contribute more. Families where none of the deductions is claimed would contribute less. However, if the transition to a gross income basis is to leave the balance between public funding and family contributions unchanged, the contribution scales themselves would also have to be adjusted. It is not possible to estimate the combined effect of the two changes on individual families.

5. The use of gross rather than residual income could introduce a new set of anomalies - for example, if no allowance were made for the presence of adult dependents in a family. Avoiding them - by, in that case, retaining allowances for adult dependents - would to some extent reduce the simplification of the administration of awards that the gross income basis offers, and would perpetuate the need to disclose some details of family circumstances. The present system has the advantage of familiarity. The Government would welcome views on whether a move to a gross income basis would be desirable.



ANSWERS TO QUESTIONS RAISED IN CONSULTATION

1. This Annex examines some of the arguments and concerns expressed in evidence to the Review of Student Support, and shows how the Government's proposals are designed to meet them.

2. The chief points raised were the following:

i. Disincentive to participation: The prospect of a debt burden will discourage participation in higher education by certain groups, viz:-

- women
- ethnic minorities
- working class children
- mature students.

ii. Influence on subject choice: Students will be unduly influenced in their choice of subject by career prospects and length of study. They will favour subjects which they see as offering the highest income, and avoid those leading to occupations, like the Church, with a low expectation of earnings. They will also be disinclined to enter prolonged professional training - such as in medicine.

iii. Effect on length of study and performance: In order to reduce or avoid debt, students will seek part-time employment when they might be studying. This will extend the period of their studies, or cause them to perform poorly - or both. More students will fail to complete their courses.



- iv. Bidding up salaries: Graduates with loans to repay will seek higher salaries. Employers will have to meet the cost.
- v. Recovery of debt: Student debts will be unsecured. The administration of a loan scheme will be a headache, and a high rate of defaults on loan repayments must be expected.

3. These arguments were carefully studied in the review, in the light of the experience of other countries with established loan systems. Indisputably a sudden switch from a grant system to a 100% loan system, with commercial interest rates and an inflexible repayment regime, would put access to higher education at risk. But the Government's proposals for the gradual introduction of a low-interest top-up loan with repayments related to earnings are designed to meet these objections fully.

#### Disincentive to women

4. Apart from the scaling of repayments to income, women will be protected by the additional safeguard that spouses' incomes will not be taken into account in calculating loan repayments. Thus no repayment will be due while a woman graduate's family responsibilities keep her out of the labour market. Overseas experience, reviewed by the National Union of Students<sup>1</sup>, shows no correlation between the use of loans and reduced female participation; women now make up the majority of entrants in the United States.

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<sup>1</sup> "Student Loans: the Costs and the Consequences", National Union of Students 1985.



Disincentive to lower socio-economic groups

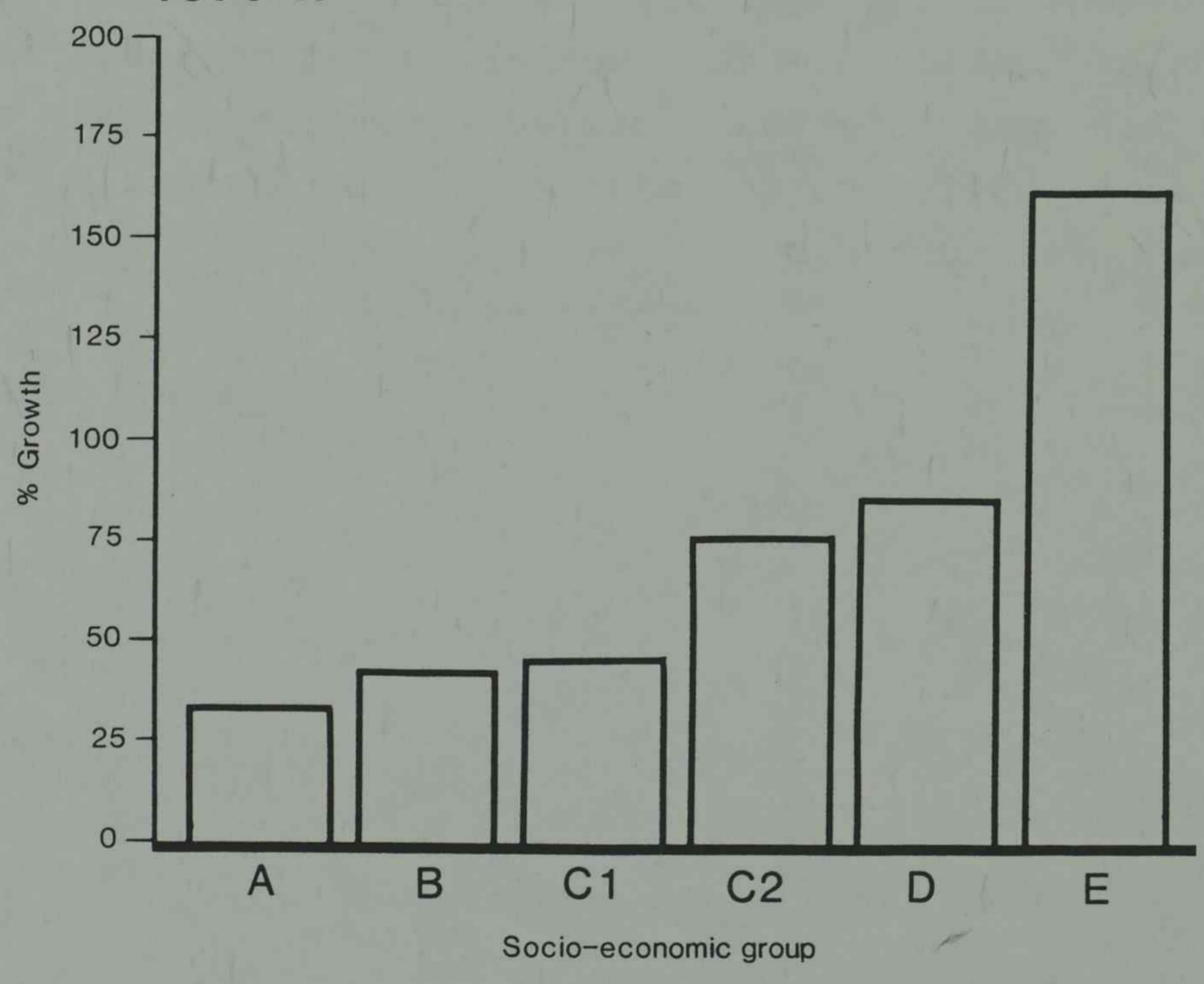
5. The argument here rests on two premises: that children from the less advantaged groups are less likely than middle-class children to see higher education as a worthwhile investment, and that they are less willing to incur debt for an investment in their own future. To the extent that the first is true, however, it acts already as a disincentive, since the decision to enter higher education involves foregoing present earnings. That the introduction of a loan element will compound the disincentive involves an unproven cultural assumption. The growth in recent years, and across all social classes, of all forms of credit dependence - mortgages, credit cards, and hire purchase - is a strong argument to the contrary. Chart A shows that the proportion of unskilled manual workers using mortgage finance for house purchase has more than doubled (from 11% to 29%) between 1970 and 1985, while the increase among professionals (from 57% to 76%) has been much slower.

Chart A



2

### GROWTH IN USE OF MORTGAGE FINANCE, 1970 to 1985.



Source: Family Expenditure Survey



For everyday purchases, all groups used credit to roughly the same extent in 1985, with skilled manual workers most likely to use credit (63%) and unskilled manual workers least likely (53%); at the same time 59% of professionals were using credit<sup>2</sup>.

6. Evidence from overseas on the relationship between loans and representation of the lower socio-economic groups in higher education does not establish that they have a deterrent effect. The study by the National Union of Students concluded that such an effect could be observed in other countries, but the data presented do not bear this out. Though the study finds evidence of some decline in working class participation in a number of the countries surveyed, it fails to explore alternative explanations<sup>3</sup>. On the information about participation rates overseas studied by the review group, and summarised in Annex C, there is no evidence that use of loans in student support systems elsewhere has in practice had the effect of reducing representation of lower socio-economic groups.

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<sup>2</sup> Source: Family Expenditure Survey.

<sup>3</sup> The evidence quoted from Denmark showed a reduction in working class representation at Copenhagen university, but the study did not explore how far that was attributable to the decline noted in employment and income prospects for graduates, rather than to the existence of loans. In the case of Sweden, a decline in the proportion of students from working class or farming backgrounds in post-secondary education was correlated with the decline in the ratio of grants to loans since 1965, and attributed to a greater unwillingness to borrow. But the study did not explore alternative explanations, such as the growing availability of vocational training as an alternative to higher education, or a decline in the value of a degree in the labour market, to both of which working class students might have been more sensitive. For the USA, the data showed a decline in lower-income participation between 1969 and 1974, but then some recovery by 1981: the relationship of this to social or labour market conditions, or changes in the support regime, was not explored. For the last country studied, Canada, figures for male students at Ontario University showed that the proportion from higher income backgrounds had grown between 1971 and 1981. However, the figures also showed that the proportion of higher-income families in the population had grown over the same period at a faster rate. The result was that the participation rate for students from higher income backgrounds had in fact fallen over the period, while that for students from lower income bands had in general remained static or risen.



### Disincentive to mature students

7. It is argued that mature students with family responsibilities will be unwilling to borrow to meet everyday expenses. However, preliminary findings from the survey of such students' income and expenditure indicate that they already incur substantial debts under the present system. For them, access to a loan on terms considerably more favourable than are available commercially will come as a help. Moreover, the loan facility will continue to be available up to the age of 50: in other countries the age-limit for obtaining a loan is commonly 30.

### Influence on subject choice

8. Students' choice of subject is influenced by a variety of considerations. One is the economic judgement: the return in expected remuneration as weighed against the sacrifice in present earnings. For many students this is not the decisive factor. They may have a vocation towards employment not attracting high remuneration, or they may choose non-vocational subjects to which their interests, abilities and natural bent incline them. Subject choice is also constrained by the availability of places.

9. In the Government's view subject choice should continue to be a matter of personal preference, but that preference needs to be informed by a better educated understanding of the needs of the employment market, and the future rewards associated with particular lines of study and professional preparation. A system of support which requires no contribution by the student undermines the realism of subject choice by providing excessive insulation from its economic implications. That is in the interests neither of the student nor of the economy.

### Length of study and performance

10. During the course, partial dependence on a loan may introduce conflicting pressures. Some students may seek part-