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MINUTES OF A MEETING HELD AT HM TREASURY ON THURSDAY 27 JUNE  
1985 AT 8.45 AM

PRESENT

Rt Hon Nigel Lawson  
Chancellor of the Exchequer

Rt Hon Sir Keith Joseph Bt MP  
Secretary of State for Education  
and Science

Rt Hon George Younger MP  
Secretary of State for Scotland

Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

Rt Hon Douglas Hurd MP  
Secretary of State for  
Northern Ireland

Lord Young  
Minister Without Portfolio

Rt Hon Peter Rees MP  
Chief Secretary

Mr John Cope MP  
Deputy Chief Whip

Hon Peter Morrison MP  
Minister of State, DE

Mr Tony Newton MP  
Minister of State, DHSS

Hon Peter Brooke MP  
PUSS, DES

OFFICIALS PRESENT

Mr Burr (Treasury  
Mr Corlett (Inland Revenue)  
Mr Bird )  
Mr N Thompson ) DES  
Miss Bartman )  
Miss Hodkinson )

Mr M Evans (Welsh Office)  
Mr Magee (Lord Young's Office)  
Mr Dewsbury (DE)  
Mr Parkes (DENI)  
Mr Brewerton (SED)  
Mr Letwin (No 10)

SUBJECT

Review of student Support

1. The Meeting considered the letter of 20 June to the CHANCELLOR OF THE EXCHEQUER from the SECRETARY OF STATE FOR EDUCATION AND SCIENCE, covering a further draft of the proposed consultative paper.
2. Before introducing his paper, THE SECRETARY OF STATE told colleagues that the Prime Minister and Business Managers wished publication of the Green Paper deferred until after the Party Conference in the autumn. They wished to minimise the number of controversial policy initiatives being announced before the Recess. He sought his colleagues' views, declaring his own preference to honour his public commitment to publish the document before the Recess.
3. There was general agreement that publication before the Recess was preferable to delaying publication until after the Party Conference. THE CHANCELLOR OF THE EXCHEQUER and other Ministers thought that the autumn would be a more politically sensitive time, with students back at university and able to concert vocal protests. Publication had already been delayed by several months: it would be better to get the document out as soon as possible just before the holidays.
4. THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that he would report Ministers' views to the Prime Minister.
5. Turning to the paper, THE CHANCELLOR OF THE EXCHEQUER thought that it would be better to set out only one option for student loans rather than the several currently displayed. Asked to choose between more and less generous loan options, it was not difficult to anticipate the public's response. It would therefore be better for the Government to decide which option seemed the most sensible and practical and then to display that one. With only the preferred option displayed, it would be important that the text of the paper made clear that the Government was not committed to a move towards student loans but was undertaking genuine consultations. This approach had been used with success in the Green Paper on Social Security.

6. His firm preference was for a loans option that did not phase out the parental contribution. In his view, savings accruing from a move to loans would better be used:

a. to count towards the savings that the Government needed to score; and

b. to be the source of additional funds for the higher education sector.

A reduction in the parental contribution should not be the first priority for any resources released by the introduction of loans. Although less immediately attractive to parents, a loans option without relief from parental contributions could be presented and justified in terms of the general benefit to higher education secured by the redeployed resources and the moving to a more equitable position, whereby the less well-off parents no longer subsidised the offspring of better-off parents.

7. THE SECRETARY OF STATE FOR SCOTLAND remained very concerned about the effect of a loans scheme on an individual graduate, say one entering the teaching profession. His calculations suggested that such a person in typical circumstances might be having to use 13% of his disposable income in his late 20s in order to repay his loan.

8. It was recognised that the public would not be slow to make such calculations for typical "hard luck" cases. The suggested cut-off point of 85% of average earnings might not be generous enough to prevent some very disturbing examples being drawn and loans becoming discredited. The MINISTER OF STATE, DHSS was concerned at the poverty trap that would be created by a sharp cut-off. There was general support for the MINISTER WITHOUT PORTFOLIO'S suggestion that a sliding scale of repayments be introduced for those earning between 85% and 100% of average earnings. This would both avoid an abrupt poverty trap and also mitigate the effects on the less well-off graduates just eligible for repayment of loans. The CHIEF SECRETARY hoped that graduates' income rather than earnings would be the basis for calculating repayment.

9. THE SECRETARY OF STATE FOR NORTHERN IRELAND saw the Government's objective as that of putting itself into the position to be able to introduce loans in the next Parliament. He wanted the paper to be a little more consultative in tone than at present, and thought that it was essential that there should be something to win the support of parents. In his view, only the possibility of a reduction at some future date in the size of expected parental contribution would win such support. The SECRETARY OF STATE FOR WALES concurred.

10. THE CHANCELLOR OF THE EXCHEQUER suggested that it might be sufficient to win parental support to promise that parental contributions should not be increased beyond their present levels. Ministers agreed that this would be of some relief to parents but did not conclude that it would be sufficient.

11. Ministers then offered more detailed comments on the paper.

a. THE SECRETARY OF STATE FOR WALES thought that the positive arguments in favour of loans needed to be developed more strongly at the beginning of the paper. One such argument was the comparison with other countries. The CHIEF SECRETARY had also been impressed by the details of international comparisons. He favoured a reduction in the size of paragraph 20, describing the position in West Germany, Sweden and the USA, and the addition of an annex to the paper which set out the information on international comparisons in more detail.

b. Ministers agreed that the suggestion in paragraph 12 of recovering parental contributions through the tax system should be dropped.

c. The MINISTER WITHOUT PORTFOLIO favoured the exclusion of the sentences in square brackets in paragraph 13. THE SECRETARY OF STATE FOR SCOTLAND was also concerned that to separate vocational training in this way for courses such as medicine would bring powerful objections from bodies such as the BMA.

d. Ministers were generally opposed to including the option in paragraph 15 that support might be reduced or even suspended in the case of those students who had been out of school for less than a year.

e. THE MINISTER OF STATE, DE thought that paragraph 16 (on scholarships and bursaries) was rather dampening.

f. THE CHANCELLOR OF THE EXCHEQUER was concerned that paragraph 21, in putting the case against loans so strongly, was simply giving ammunition to those who would wish to argue publicly against loans. The SECRETARY OF STATE FOR NORTHERN IRELAND however argued that the case against loans had to be put fairly if the paper were to be seen as truly consultative.

g. THE SECRETARY OF STATE FOR SCOTLAND regarded the sentences in paragraph 26 currently in square brackets as a sufficient safeguard for the Scottish position and wished them to remain in the draft.

h. THE CHANCELLOR OF THE EXCHEQUER wanted paragraphs 28 - 31 condensed into a single loans option on the lines he had earlier indicated. He would have preferred the implications of that option to be shown in broad outline rather than in the kind of detailed tables already annexed to the paper. Other colleagues, however, argued that the implications of a preferred loans option would have to be exemplified. If there were no figures, the media would invent them. If there were only one set of illustrative figures, these would be taken as the Government's firm proposals.

i. In describing the preferred loan option the CHANCELLOR OF THE EXCHEQUER thought that little need be said about its detailed administration. His own view was that the Government must look for the most cost-effective method of administration. If that were to be the use of the Inland

Revenue to recover loans from graduates through the tax system, then the Government ought to choose that method. He also thought that the range of questions in paragraph 33 should be reduced and question (o) in particular omitted.

12. THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE, in summing up the discussion, undertook to come back to colleagues with a revised paper in the light of their comments. In particular he undertook to consider:

- a. whether the positive arguments for a loans option should feature earlier and more prominently;
- b. if international comparisons should be dealt with more fully;
- c. whether paragraph 13 might be redrafted in the light of comments;
- d. given the proposed omission from paragraph 15, whether there was any other means of encouraging a gap between school and higher education;
- e. whether paragraph 16 might be written more positively or whether it should be omitted;
- f. how paragraph 21 might be redrafted more softly; and
- g. whether only one loans option should be presented and, if so, whether in it the parental contribution should be partially phased out over time or simply capped.

He also undertook to produce some exemplifications of the effect of the favoured loan scheme on typical graduates, such as teachers, civil servants and a better paid profession.

In conclusion, THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE asked colleagues to send him detailed drafting amendments by 2 July. He would arrange for Ministers to have a further discussion as soon as the next draft was available.

14. Ministers present invited THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE to proceed accordingly.

Distribution

Those present

PS/No 10

PS/Lord Chancellor

PS/Secretary of State for Trade & Industry

PS/Secretary of State for Social Services

PS/Secretary of State for the Environment

PS/Secretary of State for Employment

PS/Secretary to the Cabinet