



Ref. A085/1881

PRIME MINISTER

Review of Student Support
(C(85) 16)

BACKGROUND

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The Secretary of State for Education and Science announced on 24 January that he and the Secretary of State for Scotland, in association with the Secretary of State for Northern Ireland, would issue a consultative paper examining financial support for students in higher education. He has since given undertakings to the House that the document would appear before the Summer Recess. A draft Green Paper is attached to C(85) 16; it has been produced in consultation with the Treasury, Scottish, Welsh and Northern Ireland Offices, the Departments of Employment and Health and Social Security and the Minister without Portfolio. It is not, however, an agreed draft.

MAIN ISSUES

2. The main issues are:

- i. What is the primary objective of a new system? Is it to improve the "fairness" of funding student support or to release resources either for other public expenditure or to reduce public expenditure? If the latter, how far should the possible use of such resources (to reduce the parental contribution or for use in other areas of higher education) be trailed in the Green Paper?

ii. Is the balance of the Green Paper correct? Although ostensibly about student support generally, it concentrates on the loan option and only mentions other aspects briefly and without seriously discussing them.

iii. Should the terms of a loan scheme be spelt out in detail? If so, are those proposed acceptable and should they be the only example given?

iv. Timing. The proposal is to issue the Green Paper before the Summer Adjournment and ask for comments by November. Further proposals would then be put to Cabinet in the New Year. Is this too early in view of the current state of the proposals and the possibility that legislation would not be required before the next General Election?

Objective of Reform

3. It is not clear what the underlying purpose of reform is. Different passages of the Green Paper imply that the concern is with "fairness" (that is, the unfairness of the general taxpayer having to fund what is a benefit to only a relatively small portion of the community), and with releasing resources for other purposes. But the implication of "fairness", which is that savings should be used to reduce the burden on the general taxpayer, sits ill with the suggestions in the paper that savings would in fact be used to reduce the parental contribution, to extend mandatory support to other groups in higher education, or be spent on other improvements in higher education. If the intention is to reduce public expenditure overall, then it would be best to make this clear. Otherwise the alternatives mentioned will be hostages to fortune and the pressure to make further concessions (eg in the terms of the loan or to the parental contribution) as the proposals are carried forward may remove all scope for savings. As it is savings (assuming 100 per cent take up) do not accrue until



after Year 10 (see Annex D). They are then estimated as rising to £200 million plus (on the central estimate for inflation) by Year 30. Without the proposed change in the parental contribution savings would accrue earlier and be greater.

4. There will no doubt be criticism of the proposals from those who think they will lose ie prospective students. Most people are likely to be fairly neutral, unless it is made clear to the general taxpayer that he is likely to gain in the foreseeable future. If reduction in the parental contribution is part of the package, some parents at least may favour the proposals.

Balance

5. The Green Paper purports to be a basic examination of the current system of student support and possible alternatives. But the bulk of the text deals with the precise proposals for a loan scheme. There is no serious examination of certain major themes which are touched upon in the introductory passages ie that it is wrong for students to be financially dependent upon their parents until the age of 25; the effects of removing students from the social benefit system; and the possible harmonisation of student support within the European Community. There is a brief discussion of the possibility of altering the basis for parental contributions, for encouraging students to study close to home, for some form of safety net for the long vacations (for which the award system does not provide support), for support for students' dependants and for the possibility of a Higher Education tax. But none of these ideas is discussed at length and there could be criticism that they are so lightly touched on.

6. The reference to the Higher Education tax (paragraph 16) in particular could be a hostage to fortune and is likely to be opposed strongly by the Chancellor of the Exchequer. The

section on possible changes to the existing system also mentions (paragraph 13) the possibility of limiting student support to courses with a general educational content ie excluding the vocational element of courses such as medicine and architecture. That element of those courses might be financed in some other way eg by potential employers. However this is an issue which is not primarily related to the method of student support and to suggest in the Green Paper that the Government should remove support from vocational education runs contrary to other initiatives which the Government is taking to make higher education more relevant to the immediate needs of the economy.

7. The Green Paper sets out in some detail the terms of a loan scheme, involving interest-free loans repayable over 15 years after a two-year period of grace following completion of the course. Repayments would be reduced in years when income fell below average earnings on a sliding scale such that, at 85 per cent of average earnings, repayments would be deferred. Outstanding debts would be revalued annually in line with inflation, subject to a ceiling of 5 per cent. As part of the package Sir Keith Joseph proposes also that parental contributions should be reduced progressively by one third from present levels over the first ten years of the scheme - a proposal the Chancellor of the Exchequer is likely to challenge. Annex B (which it is intended to publish) shows repayment schedules for differing lengths of course and size of parental contribution. Annexes C and D (which it is not proposed to publish) show the impact of the repayment proposals on graduates over a range of incomes and the public expenditure effects. Whatever is said, the detailed presentation of one scheme will appear to commit the Government pretty firmly to this particular option. It would certainly be difficult subsequently to settle on anything less generous. It might be better to avoid such an apparent commitment by presenting at least one alternative form of loan system in equal detail and by ensuring that the "Green" nature of the proposals is more strongly emphasised.



8. Paragraph 25 dealing with the financing and administration of the loan scheme states that the scheme would need to be publicly funded. It is not clear what soundings lie behind this statement, but it is possible that the banks might be interested if guarantees and suitable terms were available and unnecessary to rule this possibility out so explicitly in the Green Paper.

Timing

9. Sir Keith hopes to publish the Green Paper in July; to take comments until November and bring proposals to colleagues early next year. He is, however, not sure when he would want to legislate to implement any required changes and it is for discussion whether legislation before the next General Election would be appropriate. If it is clear that legislation in 1986-87 would not be suitable, there is a case for not pressing ahead at top speed now. It has been argued that publication in the summer would be preferable to publication in early autumn, when the universities have just resumed, but a longer delay would minimise the effect. On the other hand, Sir Keith may feel that he is so committed to publication in July that it cannot possibly be avoided.

HANDLING

10. You will wish to invite the Secretary of State for Education and Science to introduce his memorandum. You may then wish to suggest that discussion should be in three parts: the objectives and balance of the Green Paper; the particular loan scheme put forward; and the timing of future action. Any relatively detailed points on the draft should be sent to the Secretary of State for Education and Science separately.

11. On questions of principle, you may wish to invite the Chancellor of the Exchequer to open the discussion followed by



the Minister without Portfolio and the Secretaries of State for Scotland and Wales. The Lord Chancellor also holds strong views.

12. On detailed points, the Chief Secretary, Treasury may have additional views and the Secretary of State for Social Services may wish to speak about the effect of removing students from social benefits, although this seems better dealt with in the social security context. The Minister without Portfolio may also wish to speak on the interaction between student loans and training loans.

13. On timing, the Lord President may wish to open the discussion and the Lord Privy Seal and the Chief Whip will have views.

CONCLUSION

14. You will wish Cabinet to reach conclusions on:

- i. Whether proposals for student loans should be published and on how "Green" a basis.
- ii. Whether the Green Paper should deal more fully with other aspects of student support eg the parental contribution, the withdrawal of social security support; and whether other loan schemes should also be exemplified.
- iii. Whether the Green Paper should also commit the Government to reduction in the parental contribution or pre-empt savings by promising increases in expenditure on higher education.



iv. The timing of the publication of the Green Paper and any subsequent action.

Rosalind Munro

for

ROBERT ARMSTRONG

*(agreed by Sir Robert Armstrong
and signed in his absence)*

10 July 1985