

PRIME MINISTER

STUDENT GRANTS

The position has clearly deteriorated over the weekend. Some concession now seems inevitable.

The tone of backbench and media comment suggests that phasing may do the trick. This could be achieved either (i) by restricting the cuts to new students, or (ii) by introducing the changes over several years. The second option seems best, since it will make planning easier for all parents, including those who are just about to send a child to university.

The contribution to fees should be withdrawn for this year, and reserved (if at all) for the next two years.

In principle, all the money lost through phasing should come off the education budget. But we do not believe that under present circumstances this is politically realistic. Backbench opinion will demand that the first-year loss is mainly borne by the Exchequer: Keith could also be asked to look for some small, quick phasings, and in subsequent years the whole burden can be effectively returned to DES through the PES round.

In presenting the concession, we suggest that ministers should:

- (i) stress that the parents affected by the proposals have gained substantially from tax cuts since 1979;
- (ii) point out, with force, that supporters of the Government's general policies cannot expect to be entirely exempt from the effects of those policies;
- (iii) ^{accept} ~~demand~~ that the increases in parental contribution are too sudden - hence phasing;

(iv) promise to instigate a full-scale review of student support, in response to calls from many quarters.

As the history of regional policy and agriculture shows, a proper review where the arguments are fully developed and aired, can make hard policies easier to sell. Since this subject is now so sensitive, it may be best to operate a review in the same way as the social security exercises, taking evidence from outsiders.

If the Government plays its cards right, it may rescue a long-term victory out of this defeat.

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