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DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

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cc Bl. 1
cc Bl. up
Mr. Jenwin
Ch. Whip

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1

16 May 1986

Dear John,

FUTURE UNIVERSITY FUNDING

You and I have been considering how to avert the damage to the Government threatened by the growing row over the funding of the universities. There is already deep concern among our supporters about parental fears for their children's higher education and about deficiencies which the industrial and scientific community find in the funding of university research and output of highly qualified manpower.

This concern is about to be given a fresh impetus that presents us with a wholly exceptional political problem. It is not one which I would normally have sought to resolve with you in advance of the public expenditure survey decisions in the autumn; but in this case I have no control over the timing. The University Grants Committee is about to send all universities two letters, one to issue next week, which together give them their grants for 1986/87 and their funding prospects to the end of the decade. The UGC have already told universities to expect on the basis of our public expenditure plans that they will be 8% worse off in volume terms by then than in 1985/86. Now, because the UGC with my support is pursuing a policy of rationalisation and selectivity in funding to reward research quality, a quarter of the universities including some of the largest will experience an additional loss of between 6 and 16% of their funding by 1989/90. The timing of the UGC's letters is out of our hands: I cannot delay announcement of university budgets for the academic year that begins on 1 August. And the letters are bound to set off a damaging round of public speculation about closure of particular universities.

This is not all. The Chairman of the UGC has warned me privately that in June his Committee will advise me formally (and this

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will become public) that the Government's present expenditure plans and our selectivity and rationalisation policies mean that some universities will have to close. This time I do not think they are crying wolf; the deteriorating financial position of some universities has been confirmed by a study of selected universities by DES and Treasury accountants. Closure of universities, even if politically tolerable, would not be feasible until the early 1990s because of pressure of student demand. Closure would require legislation and higher expenditure initially to cover redundancy costs. Savings from closure would not begin to flow for at least six years.

All in all I think that this adds up to a highly unusual combination of circumstances. In my judgement it is imperative for us to give the universities now an indication of Government willingness to provide - on conditions - some additional funding in this survey to avoid speculation about collapse of universities and respond to the sort of political pressure reflected in the 1922 Committee's recent meeting with the Prime Minister. We cannot wait for the conclusions of the public expenditure survey in the autumn. The right time to strike is in parallel with the first UGC letter next week. Otherwise we shall face damaging uncertainty and political campaigns all through the summer.

I emphasise that I will only hold out the possibility of additional funding in return for a bargain that ensures value for money in terms of efficiency and quality. We risk losing those gains if we delay until the autumn while still being forced to provide additional funds.

Enclosed is the draft of a letter I propose sending to the Chairman of the UGC that outlines the prospect of such a bargain. It needs to issue on Wednesday 21 May, in parallel with the first UGC letter, if it is to stand the maximum chance of staunching the political wound I otherwise foresee. I believe we find ourselves in a wholly exceptional position in relation to the public expenditure survey and I hope you and other colleagues will agree to the issue of the letter.

I am copying this letter to the Prime Minister, the other members of the Cabinet and Sir Robert Armstrong.

Lawrence

Keir

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Draft
15.5.86

DRAFT LETTER FROM THE SECRETARY OF STATE TO THE CHAIRMAN OF THE UGC

FUTURE UNIVERSITY FUNDING

1. I have always been conscious that the Government had set the Committee a difficult task in seeking to achieve a restructuring and rationalisation of the university system within a budget of declining real support from public funds and I am grateful for the way the Committee has responded to the challenge. It is in this context that I have been considering the concern that you and others have expressed to me that the continuation of the Government's current expenditure plans for the universities would be likely in practice to require savings considerably beyond what you feel could reasonably be expected from further economies and increases in efficiency. You have also told me that present financial constraints will make it more difficult to implement the policy, which the Committee has introduced with the Government's full encouragement and support, of selective allocation of recurrent grant in support of research excellence.

2. My colleagues and I will be considering these matters in the course of the Government's annual review of its public expenditure plans. The need to restrain the growth in public expenditure in the interests of the economy as a whole remains as strong as ever, as do the pressures to increase that expenditure in many areas besides education. The various competing claims can only be considered together in the context of the public expenditure survey, but as the outcome of that will not be known for some months I want to give an early indication of the basis on which it might be possible to mitigate for the universities to some extent at least the implications of present expenditure plans.

3. It will however only be possible to consider such mitigation if in the course of the next two or three months the possibility of an improved financial prospect for the universities can be associated with an agreed programme of action for the rest of the decade in the interests of both quality and value for money, demonstrable progress with which from year to year would be an important factor in considering future funding levels for the universities.

4. The nature of such an action programme would need to be discussed. I should expect it to include the following:

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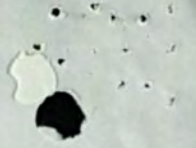
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- continuation and development of the policy of selectivity
- greater progress in the rationalisation of small departments
- the development of more stringent and visible procedures for maintaining and monitoring academic standards, including provision for staff development and appraisal
- measurable improvements in management efficiency, including in particular
 - the development and utilisation of reliable and consistent performance indicators, and
 - improved financial management systems in universities and improved financial monitoring by the UGC.

5. The Government's willingness to consider the provision of additional funding for the universities will depend crucially on our ability to formulate and implement a programme that embraces these concerns and I look forward to early discussions about them with you and with the CVCP. Any consideration of a restructuring of academic pay will depend on the progress of negotiations between the CVCP and the AUT and on Ministers being satisfied that any proposed restructuring contributed to the Government's general objectives for the maintenance and enhancement of quality in the universities.

6. I am sending a copy of this letter to Maurice Shock. I am also arranging for it to be published because of the importance I attach both to reassuring the university world that the Government is taking these concerns seriously, and to making clear the conditions under which it might be possible to respond to them.

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cc B/UP

CONFIDENTIAL

PRIME MINISTER

FUTURE UNIVERSITY FUNDING

Sir Keith Joseph's letter below describes announcements the UGC will be making to the universities next week about their funding. A note by Brian Griffiths is also below.

The UGC will be confirming that universities will be 8 per cent worse off in real terms in ^{by the end of the decade} 1986/87 than they have been in 1985/86, and that a quarter of the universities will experience an additional loss of between 6 and 16 per cent of their funding by 1989/90.

Sir Keith also says that the Chairman of the UGC has warned him privately that in June his Committee will advise the Government formally that the Government's present expenditure plans and the selectivity and rationalisation policies mean that some universities will have to close.

Sir Keith Joseph proposes sending a letter to the Chairman of the UGC setting out a bargain which effectively promises higher expenditure in return for better value for money.

This letter was cooked up with the Chief Secretary and he will agree to it (with police manpower, the second lot of public expenditure agreed outside the Survey). The letter would go out on Wednesday, on the day when most Vice Chancellors would receive their notification from the UGC.

The way this has come forward so late in the day is extremely unsatisfactory. Sir Keith Joseph and the Chief Secretary have been discussing this for at least a fortnight, and Sir Keith knew before Christmas about the threats of closures. I have told the DES and the Treasury very sharply that this has been handled badly and that more notice should have been given. The DES say they were under instructions.

Brian Griffiths is unhappy about the draft letter. He thinks it is a recipe for more detailed Whitehall involvement in university affairs, when the real need is to encourage greater enterprise in the universities. (The action programme is set out in paragraph 4 of the draft letter.)

The first question is whether you agree the general approach to the handling of this problem by means of a letter of the kind Sir Keith Joseph proposes.

If you do, the question arises whether what we would ask of the universities in return for extra money is the right thing to ask. (Clearly, something has to be asked, otherwise the Government would be seen to be offering extra money for nothing, implying that the earlier public expenditure decisions were wrong.)

If you share Brian's doubts, I suggest he might consider this further on Monday, discussing his doubts with DES, and put advice to you for Monday evening about how the universities' side of the bargain should be expressed.

Yes

Questions:

- (i) Are you content with the general approach?
- (ii) Do you want Brian to pursue his doubts about the bargain and advise further?

1 dislike the DES letter intensely - agree with Brian Griffiths

Agree also that it is very unsatisfactory that this has been brought to a wider group of colleagues so late in the day?

An expenditure report by HMIs is also to be published on Wednesday, which is both critical and helpful.

DES

DAVID NORGROVE

Yes - and with docty windymate explanation. What comes Golden ink without real academic damage? not

cc B/S/P.

PRIME MINISTER

16 May 1986

UNIVERSITIES

Next week we can expect trouble from the universities. On Tuesday (20 May) the Chairman of the UGC is due to send out to all universities the enclosed letter regarding government funding for the next year 1986/7 with plans for the rest of the decade.

The key parts of the letter are the table on the top of page 3, the table on page 4 and Annex A.

Increase in Total Grant 1986/7 to Universities

The increase in total grant for next year is £31m (see top of page 3). But part of this is already earmarked for increases in rates and for Engineering and Technology Programmes (ETP). This leaves the increase in the grant which is free for distribution by the UGC to the universities as £13m.

This is guaranteed to creat howls of protest. Sir Peter Swinnerton-Dyer's view is that they will be 'big and nasty'. Given a UGC general inflation estimate for next year of 3.75% and an addition for an increase in university costs above general inflation of 1% (due to salary increases) this

means an expected inflation for this sector of 4.75% or so. Therefore an increase in the UGC budget of 1% in cash terms means a real cut of 3½-4% for the sector as a whole.

This will invite the wrath of the CVCP, the CBI, opposition parties, backbenchers and others. It is very important that education Ministers have a credible story to tell about the positive effects of cuts on universities in terms of bringing in outside funds, creating an entrepreneurial ethos etc.

Closure of Universities?

Annex A is a critical table. Column (3) shows that while increases in the grant to individual institutions ranges from 0.1% (Reading) to 4% (Warwick) the maximum on the negative is -0.5% which applies to City, Durham, East Anglia, Keele, Bangor, Swansea, Aberdeen, Dundee and Stirling as well as for special reasons Manchester and London Business Schools.

The universities mentioned have been protected by a safety net. In its absence, the percentage reduction in recurrent grant in Annex A for some of them would have been as much as -3%, which in real terms would be a reduction of around -8% - which would almost certainly have forced them into voluntary liquidation. As this safety net has been cast for

only one year their future is still uncertain. The possibilities of closure are spelt out very clearly in a letter sent from Swinnerton-Dyer to Keith Joseph in last December which I also attach.

The method of distinguishing between different universities has been excellence: founded partly on teaching and partly on research.

The UGC's apportionments are probably unavoidable and certainly won't be welcomed. It will be essential for DES Ministers to be ready with the positive story on outside funds and an entrepreneurial ethos.

BG.

BRIAN GRIFFITHS