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10 DOWNING STREET

From the Private Secretary

3 December 1984

Dear Elizabeth,

CC Mast

STUDENT GRANTS

The Prime Minister held a meeting on Sunday evening to discuss student grants. Present were the Chancellor of the Exchequer, the Secretary of State for Education and Science and the Deputy Chief Whip. The latter said that contact with backbench MPs had revealed a great deal of opposition to the Government's proposals. Some felt it was wrong to seek a contribution to fees (though he noted that this had been the case prior to 1977) and others objected to the speed with which the higher contributions were being introduced. The Deputy Chief Whip said it was not clear what tactics the Opposition would adopt for the Debate on Thursday; they might put down an Amendment specifically on student grants or they might table a general Amendment. He believed the latter was more likely but even if the Government were not to be faced with a vote on the student grant issue on Thursday it was nevertheless essential to produce an early resolution to the problem if the Debate was not to be soured. His advice was that the Government could not prevail with its current proposals.

In discussion, it was agreed that the Government should attempt to hold the principle of removing the minimum grant and calling for a contribution to fees. It was agreed also that there could be no increase in public expenditure and that any concession made would have to be matched by further savings elsewhere. Nevertheless it was recognised that some concession could be made on timing. The Prime Minister pointed out that the additional parental contribution being proposed came on top of the halving of the minimum grant agreed in last year's PES.

The Secretary of State for Education and Science acknowledged that the parental contribution being called for was often large in relation to net incomes but he believed it was right to expect people to borrow to finance what, on all the evidence, was an excellent investment for their children. The alternative was to put more of the burden on other taxpayers whose incomes were generally lower.

One possibility was to remove the minimum grant, as planned, in 1985/86 but to seek only half the proposed contribution to fees. The full contribution to fees would be made in year two. It was estimated that this would cost £9 million in 1985/86 and £5 million in 1986/87. The Chancellor argued that the Secretary of State should find the £9 million by savings elsewhere in his programme, eg. by delaying part of the additional provision for science. (The

cost in the second year could be met by the Department in the 1985 PES).

The Secretary of State for Education and Science argued that he could not now withdraw the extra funds being provided for the research councils. He could find savings by delaying the additional provision for equipment in universities, by trimming local authority capital allocations, and by other economies in the departmental programme. These would amount to £5 million or £6 million. He could do no more.

The Prime Minister asked whether the interest on loans for education could be made liable for tax. The Chancellor said this would be very expensive; in any case, it would be impossible to ensure that such loans were dedicated to education.

While he recognised that the Secretary of State for Education and Science was not voluntarily re-opening his programme, the Chancellor said it would be difficult to approach other departments to make up any shortfall. The understanding that departmental programmes should not be re-opened cut both ways.

At this point the Chancellor had to leave the meeting. In further discussion, doubts were expressed as to whether the proposal on phasing would secure enough backbench support. Another possibility would be to remove the minimum grant in year one, require half the planned contribution to fees in year two and the full contribution in year three. While this had the merit of producing a more even phasing for the increased contribution, the process of transition was too extended. It was thought this might cost £20 million in 1985/86, £10 million in 1986/87, and £5 million in 1987/88.

A third possibility would be to make the transition in two years but with only about £150 of the contribution to fees being sought in the first year. This would make the transition in two roughly equal steps. It was thought this variant would cost around £13 million in 1985/86 and £6 million in 1986/87. It was agreed that this should be the Government's preferred course. The Secretary of State for Education and Science said that as he could find no more than £6 million in the first year, a contribution would be required from other departments.

At this point, the Prime Minister spoke by phone to the Chief Secretary and asked him to provide options, by Monday evening, of the savings on other departmental programmes which could make up the shortfall on this third option (and as a contingency, on the second option). The Prime Minister then phoned Lord Whitelaw who agreed to hold a meeting, in the Prime Minister's absence in Dublin, on Tuesday morning with those ministers from whom savings were being sought. The Prime Minister would consider the outcome of this when she returned from Dublin on Tuesday evening.

The discussion then turned to the manner in which the Government's response should be made known. The Secretary of State for Education and Science was meeting backbenchers on Tuesday afternoon. It would not be right for him to make any

formal announcement to a Party gathering. It was agreed that during the course of Monday the Whips should advise backbenchers to listen to what the Secretary of State had to say at the meeting on Tuesday. At this meeting, the Secretary of State should indicate that the Government recognised that the proposals were tough and that the Government was considering how best to mitigate them. It would be made clear that the Government was still adhering to the principle of removing the minimum grant and seeking a contribution to fees and that the concession would, therefore, be confined to phasing. It would also be made clear to backbenchers that the costs of any concession would have to be matched by savings in the education budget or other programmes. The Government would then make its position known in a statement the following day.

It was noted that one of the results of the current debate was that public opinion was becoming much more attuned to the possibility of student loans. The Government should take advantage of this mood by announcing a review of this proposal in its announcement.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), David Peretz (H M Treasury), Richard Broadbent (Chief Secretary's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

*Yours sincerely
Andrew Turnbull*

Andrew Turnbull

Miss Elizabeth Hodkinson,
Department of Education and Science