

CONFIDENTIAL

PRIME MINISTER

STUDENT GRANTS

The proposal being pursued is that in year one minimum grants are abolished and parents are asked to contribute £140 to fees, with the full contribution in year 2. (This makes the transition in two equal stages). This costs £14 million in 1985/6 and £5 million in 1986/7. It is hoped, but not guaranteed, that this will carry the trick.

Sir Keith has offered to find £6 million in year one and presumably can find the £5 million in year 2. This leaves £8 million in year one to be found.

The options are:

- (i) KJ finds the whole £14 million by slowing down the switch to science
- (ii) KJ announces savings of £6 million, with £8 million "to be found" in some way
- (iii) Other Departments are asked to make savings of £8 million
- (iv) The Treasury says it will find savings of £8 million in a manner which does not represent a claim on the contingency reserve
- (v) The £8 million from the contingency reserve

The Treasury have a strong preference, on grounds of practicality and in order to maintain the credibility of the programme totals, for option (i). KJ has to tell the Back Benchers and the science community that he



cannot make the switch of priorities as quickly as he had originally hoped.

As a poor second best the Treasury have suggested final savings from Mr. Jenkin, Mr. Tebbit, Mr. Ridley and Mr. Jopling. It is not clear whether this would be £2 million from each or £8 million from one of them.

Lord Whitelaw will attempt whatever you ask him to do but he has reservations about re-opening settlements he reached in MISC 106. Treasury are reluctant to re-open agreements reached in bilaterals. Other arguments against option (iii) are :

- How to justify a saving on programme X to finance easing of education proposals
- undesirable precedent of allowing pressure in one programme to force other programmes to be raided
- How to justify a cut in one programme now which was not justified a month ago.

Agree on grounds of practicality and in light of these arguments that KJ is asked to find the savings as in Option (i) ?

If you agree, I will report back on progress of discussions with KJ.

ANDREW TURNBULL

3 December 1984