

SUBJECT
CC Master.

SECRET

file DSGAEA

bc Oliver Letwin
Bernard Ingham



8.

10 DOWNING STREET

From the Private Secretary

5 December 1984

STUDENT GRANTS

This letter records the discussions which took place last night and this morning on student grants. At the meeting in the Prime Minister's room at the House of Commons last night, attended by the Lord President, your Secretary of State, the Chancellor of the Exchequer, the Chief Secretary, the Deputy Chief Whip and Mr. Alison, the Deputy Chief Whip reported on the position following the Secretary of State's meeting with Government backbenchers. It was clear that the concession on phasing discussed at the weekend would no longer command support; indeed there had been clamour at the meeting for the Government to withdraw its proposals entirely. He also thought that much of the criticism was implicitly directed at the Treasury for pressing too hard towards the objective of reducing taxation.

In discussion, two options were identified. First, the Government could announce that it was withdrawing the proposal to seek a contribution to fees while, at the same time, delaying the allocation of additional resources to science. The Secretary of State for Education and Science said he could make a significant contribution to such a concession, which would cost around £20 million in the first year, but he could not find the whole amount. If the Treasury insisted that the revised package was neutral in expenditure terms, savings would have to be found from other programmes.

The alternative was to announce that the whole package on student grants and additional resources for science was being withdrawn and that the Government would table new proposals, after consultations, early in the New Year. This would be on the understanding that the public expenditure effect would be neutral, with part of the cost coming from the Education programme. Summing up the discussion, the

SECRET

Prime Minister said the meeting favoured withdrawing the package for reconsideration. She asked those present to reflect on it overnight before drafting a statement to be made on Wednesday afternoon.

In the morning, the Secretary of State, accompanied by Mr. Hancock and Mr. Stuart, came to see the Chancellor. Also present was Sir Peter Middleton. The Chancellor said that, on reflection, the solution favoured the previous night was probably not the best answer. To withdraw the package and bring forward new proposals would only result in continuing lobbying and uncertainty. The process of seeking additional savings from colleagues to make good the shortfall could result in agreements on public expenditure totals being re-opened.

He therefore thought it would be better to revert to the proposal which had been considered earlier, i.e. that the Government should announce that it was dropping the contribution to fees while carrying through the proposal for abolition of the minimum grant. It was possible that, at a later date, perhaps as part of a system of student loans, the fees option could be revived.

It was estimated that dropping the contribution to fees would cost around £20 million in the first year. The Chancellor suggested that the Secretary of State should find a little over half of this in the first year and the same proportion of whatever was the cost of the concession in subsequent years. This could be done by delaying the allocation of funds to science. The Chancellor urged that no attempt should be made to reduce local authority capital expenditure. He believed this would represent a straightforward solution which could be sold to Government backbenchers.

The Secretary of State for Education and Science agreed that announcing the Government's response along these lines would be better than a period of uncertainty. He was grateful to the Chancellor for the offer to meet part of the additional cost by an increase in the programme totals. He agreed to find just over half the savings, subject to detailed examination by his officials of the implications for the later years.

The outcome of this meeting was relayed to Lord Whitelaw and the Lord Privy Seal. I also informed the Secretary of State for Scotland.

The Prime Minister held a meeting at 11.15 this morning to discuss the contents of the statement. Present were the Lord President, Lord Privy Seal, Chancellor of the Exchequer, Secretary of State for Education and Science,

Chief Secretary, Mr. Alison and Mr. Brooke. Also present were Sir Peter Middleton and Mr. Ingham. The Deputy Chief Whip thought the support of Government backbenchers could be secured for the proposals now suggested by the Secretary of State for Education and Science and the Chancellor of the Exchequer. But this would be easier if the existing proposals were first withdrawn and their package was tabled following a period of consultation. This would meet criticism both about elements of the original proposals and about lack of consultation with backbenchers.

In discussion, it was argued that a period of consultation would not necessarily make it easier for the Government to secure agreement as no consensus had or was likely to emerge among backbenchers as to what should be done. Furthermore, parents needed to know soon what was proposed for the academic year starting September 1985.

Summing up the discussion, the Prime Minister said the best course was for the Government to announce in its statement today that it was withdrawing the proposal for contribution to fees in 1985-86. Proposals for the later years, including the possibility of loans would be the subject of review and consultation. This course had the merit of letting parents know where they stood for the next academic year, of scaling down the proposed increase in contributions and of allowing consultation on the longer term system for student support. It left open the option of contribution to fees. If asked whether the fees issue had been dropped for future years, the Government would say that no decisions had been made; this was a matter for the review and consultation. The statement should make it clear that, exceptionally, an addition to programme totals was being allowed. The Prime Minister invited the Secretary of State to draft a statement and to clear it with colleagues. She urged that details of the offsetting savings should be fully worked out before the announcement.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), David Morris (Lord Privy Seal's Office), David Peretz (HM Treasury), Richard Broadbent (Chief Secretary's Office, HMT), Murdo Maclean (Chief Whip's Office), and Richard Hatfield and Peter Gregson (Cabinet Office).

ANDREW TURNBULL

Miss Elizabeth Hodkinson
Department of Education and Science.

SECRET

SECRET



RECORD OF A MEETING HELD AT 9AM
ON 5 DECEMBER 1984 IN NO 11 DOWNING STREET

Those present:

Chancellor
Sir P Middleton
Secretary of State for Education and Science
Mr Hancock
Mr Stuart
Mr Turnbull (No 10)

STUDENT GRANTS

The Chancellor said that the solution agreed upon the previous night was neither the best, nor the most sensible answer. If the meeting could agree a better solution than withdrawing the whole education package and bringing forward new proposals in the New Year, then Andrew Turnbull would report it to the Prime Minister, and he felt there was a good chance that she would agree. To defer the problem would only result in continued agitation, other colleagues trying to unravel their expenditure programmes and uncertainty in the markets. It would be much better to lance the boil now.

2. ~~He~~ thought, and regretted, that for the ~~immediate~~ future the idea of seeking a parental contribution to tuition fees was dead for political reasons. The proposal which the Prime Minister had initially floated at the meeting the previous evening was probably the right one: to abolish the minimum grant, and retreat on tuition fees. Maybe at a later date, while looking at student loans etc., tuition fees could come back into play as part of a longer term package of student support, including loans.
3. It was ^{estimated} agreed that this new solution left a deficit of around £20 million ^{in the first year} on the ~~DES~~ programme in each of the ~~3~~ PES.

ambition
in total
meeting
so much

PES
change
structure



years. The Chancellor asked the Secretary of State to find just a little over 50 per cent of that money in the first year and 50 per cent ^{of which would be concerned cost} in the second and third years. He would then agree to provide the rest as additional money for education. One clean and simple solution so far as the 85-86 cost was concerned would be for the Secretary of State to explain that the £10 million extra for laboratory equipment promised to Vice-Chancellors in years 1 and 2 would simply be delayed a year. That would leave only a small extra amount for DES to find to take their contribution to over 50 per cent of the deficit. ~~The Secretary of State agreed that that was one option. Said he could~~

5. → ~~accept this offer~~
 6. ~~Para 7 as amended~~
 The Chancellor stressed that his offer represented a major concession on the part of the Treasury. The Secretary of State said that he did not wish to be rescued at the expense of putting at risk the whole public expenditure package. The Chancellor acknowledged that there was high risk, but said that this solution would have to be ring-fenced by the Prime Minister at Cabinet the next day so as to deter colleagues from reopening their own programmes. ~~This was a special case and the Chancellor would have to take criticism on the chin.~~

4. ~~8.~~ Mr Stuart pointed out that there could be problems in finding the savings of a little over £10 million in each of the second and third years. The Chancellor replied that DES had the whole of the Education Budget to play with in those years and, though he counselled strongly against eating into LA Capital in Year 1, it might be necessary to draw on it for the later years.

6. The Secretary of State wondered whether the Chief Whip would agree to the course proposed. The Chancellor said that it represented an important retreat both by the Government and the Treasury, and he was sure that ^{the Whip} ~~John Cope~~ ^{able to sell} would ~~buy~~ the

SECRET



*and to be grateful to be the other
factor of the which he could accept
subject to detailed examination of
the year. While noting the
Chancellor's comments on the source
of the savings, he would like to obtain
freedom to be precise source of the
savings to be found.*

package. It did not involve phasing, and it involved ^{dropping} the ~~abandonment~~ of tuition fees. at least for the time being.

5 7. The Secretary of State asked if he was free to take what he could for Science, while giving less to the ABRC and £4 million to the universities. The Chancellor agreed that it was up to the Secretary of State how he divided his share of the cost, but stressed that the Science package had to take its share too at some stage.

8. It was agreed that Andrew Turnbull would report the conclusions of the meeting to the Prime Minister. ^{to be lead President and the Deputy} A draft statement, cleared with the Treasury, would be sent to No 10 by the end of the morning.

P WYNN OWEN

5 December 1984

Circulation:

- Those present
- Chief Secretary
- Mr Bailey
- Mr Scholar
- Mr Faulkner

2.29

COVERING SECRET



File

Copy

9

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

5 December 1984

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

Dear Andrew,

.. I attach draft minutes of the meeting at No 11 this morning on Student Grants. I would be grateful if you could have a look at them this morning and let me know if any amendments are required.

Yours sincerely,

Philip Wynn Owen.

P WYNN OWEN
Private Secretary