

MR TURNBULL

cc Mr Mount

PUBLIC EXPENDITURE SURVEY: UNIVERSITY CURRENT EXPENDITURE

I understand that the Prime Minister is still considering Sir Keith Joseph's objections to MISC 99's proposed cut of £50 m. in university current expenditure for 1986/7.

The DES minute refers to the Prime Minister's letter of 7 June to the AUT. That letter contained a verbatim transcription of a "Question of Policy" paper produced by the DES before the Election. The quasi-commitment that the letter contained was made on several other occasions by DES Ministers.

What is to be done? There are two unpalatable possibilities:

1. Concede to the DES, and sacrifice the £50 million.
2. Announce explicitly that, in order to contain public expenditure, we have had to adjust our plans; (ie, we now intend to hold the real level of university expenditure steady in 1985/6, but to let it fall by some 3½ per cent in 1986/7).

There is, however, a way of steering between the Scylla and the Charybdis:

3. In the educational world, "real terms" has come to mean "value, allowing for changes in both pay and prices". This (usually unfortunate) definition plays into our hands in the present case, since it means that "real terms" expenditure on universities is in inverse proportion to the level of university pay. And pay accounts for some two-thirds of all university current expenditure. Might the Prime Minister, therefore, consider a cut of c.£30 m? This would enable her to lay the whole blame for any "real terms reduction" on whatever pay rise was negotiated by university teachers. If the AUT accepted a wage freeze in 1986/7, the cash position for that year would be sufficient to maintain the "real terms" level established in 1985/6.

I do not suggest that this solution would be ideal; but it might make the best of a bad job.