



B/C: Mr Mount
Mr Letwin

10 DOWNING STREET

From the Private Secretary

11 November, 1983

UNIVERSITIES' CURRENT EXPENDITURE

The Prime Minister held a meeting today to discuss the provision for universities' current expenditure which was unresolved at Cabinet the previous day. Present were your Secretary of State, the Chancellor of the Duchy of Lancaster, the Chief Secretary, Sir Robert Armstrong and Mr. Gregson.

The MISC Group had recommended a cut of £50 million in 1986-87. Your Secretary of State felt that he could not deliver such savings in this timescale without incurring redundancy payments which would generate additional costs in the next two years.

The Prime Minister complained that the additional information supplied after yesterday's Cabinet meeting did not provide adequate information on which to base the discussion. There was no breakdown of costs between pay of academics, pay of non-academics and non-staff costs. The note provided discussed natural wastage only in relation to academic staff. Nor was there any explanation of the suggestion your Secretary of State had made that it might be necessary to close universities.

In discussion, the argument that the saving had to be found solely from academic pay was challenged. It was noted that the total university current expenditure of about £1,450 million broke down into £550 million pay for academics, £350 million pay for non-academics and approximately £450 million on non-staff costs. Of the £50 million savings sought the pro-rata share of academics' pay would be approximately £18 million. It was also noted that natural wastage of academics could save £16 million a year though this was a theoretical maximum as some posts would have to be refilled.

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Your Secretary of State explained that the suggestion that universities might have to be closed was not an idea out of the blue; his predecessor as Secretary of State had discussed this option when considering savings on higher education.

In further discussion it was noted that your Secretary of State during the course of the bilaterals, had offered to make savings of up to £36 million. This was on condition that the base line was increased to accommodate certain unavoidable additional costs. These arose mainly from an adverse relative price effect, non-staff costs tending to rise 1½ per cent a year faster than inflation generally, higher national insurance contributions, building maintenance, and clinical salaries. It was argued that allowing for a relative price effect would validate inefficiency in purchasing. In other programmes, such as defence, the relative price effect was now being disallowed as a basis for additional bids.

The Chief Secretary suggested that your Secretary of State should consider savings of £36 million spread over the last two years, on condition that he gave up the claim to the increases in the base line. In addition an efficiency study should be conducted by a major firm of accountants.

Summing up, the Prime Minister said that the Secretary of State should consider the Chief Secretary's offer over the weekend and should confer with the Chief Secretary on Monday. The efficiency study referred to should be set in hand.

I am sending a copy of this letter to Janet Lewis-Jones (Lord President's Office), Alex Galloway (Chancellor of the Duchy of Lancaster's Office), John Gieve (Chief Secretary's Office), Richard Hatfield (Cabinet Office) and to Peter Gregson.

(A. Turnbull)

Miss C.E. Hodkinson,
Department of Education and Science

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CE NO

Prime Minister

Settled along lines proposed at gov meeting

AT 15/11

DEPARTMENT OF EDUCATION AND SCIENCE

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FROM THE SECRETARY OF STATE

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

15 November 1983

MT

Dear Andrew,

Universities

Thank you for your letter of 11 November.

In the light of the views expressed by his colleagues, my Secretary of State has decided to accept the Chief Secretary's proposal that he should withdraw his additional bids and that the baseline should be reduced by £36m in the last two years. He thinks it would be appropriate to make cuts of £14m in 1985-86 and £22m in 1986-87. I understand that Treasury officials concur. It will be necessary to give the universities very early notice of the Government's decisions and we shall be in touch with the Treasury about the manner and timing.

The Secretary of State is considering how best to mount an efficiency study as proposed by the Chief Secretary.

I am copying this letter to those who had yours.

Yours,

MISS C E HODKINSON
Private Secretary

Education : Policy Pt 3

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Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

15 November 1983

Dear Andrew

UNIVERSITIES

Elizabeth Hodgkinson copied to me her letter of 15 November.

The Chief Secretary is content with the Secretary of State's proposals on the distribution of the reductions between the two years.

Taken together with the changes in the education and science programme already agreed by colleagues, the proposals will involve the following adjustments to the baseline:-

1984-85	1985-86	1986-87
+ £21 million	- £8 million	- £30 million

The Chief Secretary looks forward to receiving in due course the Secretary of State's suggestions on the conduct of the proposed efficiency study.

Yours sincerely

J. Gieve

JOHN GIEVE
Private Secretary

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