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SUBJECT CC MASTER

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10 DOWNING STREET

From the Principal Private Secretary

19 May, 1986.

Dear Rob,

FUNDING OF THE UNIVERSITIES

The Prime Minister held a meeting this morning with your Secretary of State to discuss his letter to the Chief Secretary of 16 May about the funding of the universities. The Lord President, Chief Whip, Professor Griffiths (Head of No. 10 Policy Unit), and Mr. Unwin (Cabinet Office) were also present.

The Prime Minister said that she thought that the matters discussed in your Secretary of State's minute should have been considered collectively at an earlier stage. The Government was in danger of getting the worst of all worlds. Some would believe that the extra university funding presaged a relaxation of public expenditure policy. Others would make political mischief in the period between the despatch of the UGC's letter to Vice-Chancellors tomorrow and the Secretary of State's letter to the UGC the following day. Nor was the Secretary of State's letter designed to put the best face on the Government's case.

Your Secretary of State replied that the full difficulty of the universities' financial position had not become apparent until last week. It resulted from the policy of selective funding whereby resources would be redeployed from university departments with a below average record of scholarship to those with an above average performance. No one was expecting the dramatic, but wholly justified, transfer of resources away from the efficient to the inefficient. His letter to the Chairman of the UGC this week would signal that extra funds would be forthcoming in the period 1987-88 to 1989-90 and thus avoid headlines about university closures (though there would still be a need for rationalisation of departments).

The Secretary of State then explained the operation of the "selectivity" system whereby academics' peers, e.g., in the UGC and the Royal Society, judged the quality of the assessment of the effectiveness of scholarship and research carried out by individual departments. These arrangements would, it was hoped, be extended to universities' teaching activities so that redeployment could take place in respect of the effectiveness of this activity. The Prime Minister

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welcomed the policy of selectivity. It ought to feature strongly in the Government's presentation of its case even though the policy would not begin to operate until 1987-88 and guidance on its operation would not be issued until next week.

The discussion then turned to the drafting of the Secretary of State's letter to the Chairman of the UGC on the future of university funding. It was emphasised that the Government's strong points should be included early in the letter, e.g., by bringing a better expressed version of the material in paragraph 4 into the first paragraph. The letter should emphasise that the additional funding contemplated would be to encourage excellence, to cushion the difficulties of change and to help encourage those university departments which were not up to standard. It should emphasise too the development of procedures in the universities for improving academic standards. Less prominence should be given to the reference in the letter to "declining real support from public funds": certainly, this statement should not appear in the first paragraph of the letter. The material in paragraph 4 should be redrafted to bring out the advantages of the policy of "selectivity", though a more down-to-earth expression should be used, such as the better university departments would receive more resources, and the less good, less. The phrase "manageable improvements in management efficiency" should be redrafted to read "improvement in management" (or some other such more easily understood phrase). The second half of the last sentence (beginning "..... to such outcome") of the second paragraph should be omitted since it seemed to suggest that present public expenditure plans were easily changeable. The Secretary of State's letter should be despatched at the same time as the despatch of the Chairman of the UGC's letter. It should be preceded by appropriate press briefing. The Secretary of State should also make a statement to Parliament. So as to ring fence the public expenditure treatment of the universities, it should be stressed to colleagues (but not to the public) that the course agreed would be cheaper over the next few years than the cost of financing redundancy from university closures.

The Prime Minister then questioned the reasons for the deductions from the universities' "total grant" shown in paragraph 7 of Sir Peter Swinnerton-Dyer's letter of tomorrow's date. In particular, the deduction for local authority rates gave the universities no incentive to economise on their use of buildings; the rates charge ought to be borne directly by the universities. The Secretary of State undertook to look into the justification for the deductions shown and to report to the Prime Minister.

Summing up the discussion, the Prime Minister said that the Secretary of State's letter should now be revised in the light of the discussion. It should be despatched at the same time as the letter from the Chairman of the UGC. The Secretary of State should make a statement to Parliament, emphasising the reasons behind the redistribution of resources. DES should use all their

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influence to persuade the UGC to drop threats of closure from their bidding letter, which might arrive this week.

I am sending copies of this letter to Joan MacNaughton (Lord President's Office), Jill Rutter (Chief Secretary's Office, HM Treasury), Murdo Maclean (Chief Whip's Office), Professor Griffiths, and Mr. Unwin.

*Yours sincerely
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N.L. Wicks

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