CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 30 July, 1970, at 3 p.m.

Present:

The Right Hon. EDWARD HEATH, M.P., Prime Minister

The Right Hon. REGINALD MAUDLING, M.P., Secretary of State for the Home Department

The Right Hon. LORD HAILSHAM OF ST. MARYLEBONE, Lord Chancellor

The Right Hon. WILLIAM WHITEHAW, M.P., Lord President of the Council

The Right Hon. GEOFFREY RIPPON, Q.C., M.P., Chancellor of the Duchy of Lancaster

The Right Hon. MARGARET THATCHER, M.P., Secretary of State for Education and Science

The Right Hon. THE EARL JELLIICOE, Lord Privy Seal

The Right Hon. PETER THOMAS, Q.C., M.P., Secretary of State for Wales

The Right Hon. MICHAEL NOBLE, M.P., President of the Board of Trade

The Right Hon. SIR ALEC DOUGLAS-HOME, M.P., Secretary of State for Foreign and Commonwealth Affairs

The Right Hon. ANTHONY BARBER, M.P., Chancellor of the Exchequer

The Right Hon. SIR KEITH JOSEPH, M.P., Secretary of State for Social Services

The Right Hon. ROBERT CARR, M.P., Secretary of State for Employment and Productivity

The Right Hon. GORDON CAMPBELL, M.P., Secretary of State for Scotland

The Right Hon. PETER WALKER, M.P., Minister of Housing and Local Government

The Right Hon. JAMES PRIOR, M.P., Minister of Agriculture, Fisheries and Food

Mr. JOHN DAVIES, M.P., Minister of Technology

The following were also present:

The Right Hon. CHRISTOPHER CHATAWAY, M.P., Minister of Posts and Telecommunications (Item 5)

The Right Hon. FRANCIS PYM, M.P., Parliamentary Secretary, Treasury

Mr. MAURICE MACMILLAN, M.P., Chief Secretary, Treasury

LORD BALNIEL, M.P., Minister of State for Defence (Item 1)

The Right Hon. SIR PETER RAWLINSON, Q.C., M.P., Attorney-General (Items 1-4)

SECRET
SECRET

Secretariat:
SIR BURKE TREND
Mr. P. J. HUDSON
Mr. B. G. TUCKER
Mr. G. F. KEAR
Miss S. W. FOGARTY
Mr. C. R. CANN

**CONTENTS**

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>THE RUNDOWN OF THE BRITISH ARMY</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>AIRCRAFT INDUSTRY</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Concorde and BAC-311 Aircraft</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>THE SECOND FORCE AIRLINE</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>FINANCIAL ASSISTANCE TO HARRAND AND WOLFF LTD</td>
<td>9</td>
</tr>
<tr>
<td>5</td>
<td>BRITISH BROADCASTING CORPORATION</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Local Radio Stations</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>THE OPEN UNIVERSITY</td>
<td>13</td>
</tr>
</tbody>
</table>
SECRET

1. The Prime Minister informed the Cabinet that, as arranged at their previous discussion of this subject, further examination had been made of ways of modifying the proposal outlined in CP (70) 26, concerning the rundown of nine major units of the British Army, in order to overcome the disadvantages which the Cabinet's earlier discussion had revealed. It was now proposed that, instead of being offered the option of completing the disbandment plan or of continuing in cadre form with an establishment of 30-50 men, the units concerned could be allowed, if they wished, to remain at company or squadron strength, i.e., about 120 men. Specific roles could be filled by the sub-units so formed; and the plan was thus militarily viable. The net cost to the Defence Budget of the proposal, which would fully discharge the Government's undertaking to review the rundown plan of the previous Administration, would for the next few years not exceed £1.4 million a year. About half of this sum represented the cost of retaining at company or squadron strength the nine units nominated for disbandment or amalgamation; the other half was the cost of not proceeding with the rundown of the 10th unit as proposed in paragraph 9 of the Annex to CP (70) 26. In view of the imminence of various postings it was intended, subject to consultation with the Defence Secretary who was at present in the Far East, to make an official announcement of the Government's decision on 4 August.

In a brief discussion there was general agreement with the plan and the proposed timetable for announcing it.

The Cabinet—

Took note, with approval, of the Prime Minister's statement.

2. The Cabinet resumed their discussion of memoranda by the Minister of Technology (CP (70) 15), the President of the Board of Trade (CP (70) 23), the Attorney-General and the Solicitor-General (CP (70) 17) and the Chief Secretary, Treasury (CP (70) 25), about the Concorde aircraft project. They considered also a memorandum by the Minister of Technology (CP (70) 21) about the BAC-311 aircraft.

The Prime Minister said that the issues raised by these memoranda affected the whole future of the British aircraft industry and could not well be resolved in the course of the present discussion, particularly since some of the Ministers most closely...
concerned had been appointed only very recently and had not had
time to familiarise themselves with all the Departmental aspects
of the complex problems involved. In these circumstances the
Cabinet's discussion would best be confined to a review of the main
issues of policy which were at stake and to some consideration of
the means by which the matter might best be pursued before the
Cabinet reached a final decision. It might be desirable that
Ministers should have before them at that stage an
interdepartmentally agreed assessment of the range of problems
involved and of the implications of the various possible courses of
action open to the Government; and, if the Cabinet endorsed this
suggestion, he would seek to make the necessary arrangements in
time for a resumed Ministerial discussion early in September.

In discussion of the general issues of policy arising from the
proposals before the Cabinet it was suggested that developments in
the United States could directly affect our own decisions.
Congressional discussions in Washington on the provision of further
funds for the United States supersonic transport aircraft (SST) had
reached a critical stage; and, if the eventual decision were against
proceeding with the venture, this could influence the attitude of the
United States authorities to any adaptation of civil aviation
regulations which might be necessary for operation by supersonic
aircraft and so affect the Concorde's sales prospects. On the other
hand the abandonment of the United States SST aircraft might
conceivably open the way to some form of United States association
with the Concorde project, if we ourselves eventually decided to
proceed with it. Similarly, the BAC-311 project and the Rolls-
Royce engine which it was to incorporate were liable to be affected
in a number of ways by the United States decisions. In particular,
the future of the Rolls-Royce RB-211 engine could be jeopardised
if the civil element of the Lockheed organisation went into
liquidation, as was not impossible, and the Lockheed Tri-Star
aircraft, for which the current version of the engine was designed,
was abandoned.

For the rest there could be no prospect of economic advantage
in continuing with the Concorde. But there was a clear conflict
between the financial attractions of cancellation and its serious
implications for our relations with France, particularly as regards
the French attitude to our application to join the European
Economic Community. The decision on the BAC-311, and on our
attitude to the A300B project, would exert an equally far-reaching
influence on the future size and structure of the aviation industry
and would have important implications for employment, for British
technology and for the balance of our future foreign exchange
earnings and payments. The industry's potential capacity for saving
foreign exchange was indicated by a recent assessment that the annual aircraft procurement programmes of the two British airline Corporations might reach £250 million by the mid-'80s. On the other hand there would be no advantage in supporting a policy whose sterling costs were so great as to imply the acceptance of a dollar exchange rate significantly less favourable than the present parity.

In further discussion it was emphasised that the aviation industry had already spent some £3 million on the BAC-311 project and that the best hope of securing substantial private participation in the remaining stages, if the project were allowed to go forward, would lie in making an announcement by the time of the Farnborough Air Show. But, whatever the decisions on the problems before the Cabinet, there could be no profit from prolonged uncertainty; and the Government should therefore seek to reach a conclusion during September. For this purpose, however, it would be undesirable to rely only on the conventional method of presenting the issues to Cabinet, whereby the technological and political advantages of proceeding with advanced projects were merely set in opposition to the economic necessities of reducing Government expenditure. This procedure had produced successive unsatisfactory results in both the military and the civil fields, in the sense that many projects had been cancelled after heavy expenditure had been incurred and, of those projects which were completed, few had prospered sufficiently to recoup the development costs. Experience of this kind suggested that a fresh effort must be made to reconcile, or at least to minimise, conflicting Departmental evaluations of the factors involved and to enable the implications of such projects to be considered in the wider context of the most effective use of our economic resources as a whole. The proposals now under discussion for the establishment of some form of central capability unit, capable of objective analysis of complex problems such as those now before the Cabinet, might in due course make an important contribution in this respect.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that it would be inexpedient to seek to reach a final decision on the issues before them at the present meeting. But arrangements should be made to complete, as early as possible in September, an objective and agreed analysis of the possible courses of action open to the Government and of their implications. This analysis should include not only an evaluation of the various relevant factors adduced in the memoranda now before the Cabinet but also an up-to-date assessment of the uncertain intentions of the United States authorities as regards the development of a supersonic
The Second Force Airline (including their likely effect on the prospects for Rolls-Royce), an appraisal of the effect of the various possible decisions on the future of the British airframe, aero-engine and avionics industries and a fuller examination of the prospects of British participation in the Franco-German A300B Airbus project as an alternative to unilateral support for the BAC-311. He would consider how, in the absence of an established central organisation for examining such problems, an analysis of this kind could best be prepared, using existing Departmental resources; and all Ministers whose Departments would need to contribute to it should impress on their staffs the importance which the Cabinet attached to it.

The Cabinet—

Took note, with approval, of the Prime Minister's summing up of their discussion.

CONFIDENTIAL

3. The Cabinet considered a memorandum (CP (70) 33) by the President of the Board of Trade about the possible establishment of a "second force" independent airline.

The President of the Board of Trade said that the Government were committed to encouraging the creation of a second force airline. The only means by which this could be ensured in the foreseeable future was the purchase of British United Airways Ltd. (BUA) by Caledonian Airways Ltd. (Caledonian). The latter company, however, could only finance the purchase if they could satisfy their financial backers that routes would be transferred to the new airline on a scale sufficient to yield an additional profit before tax of about £800,000 in 1971. This would entail the transfer from British Overseas Airways Corporation (BOAC) of routes yielding a revenue of about £5-£6 million out of total current revenue of £200 million. The Corporation, however, had refused to co-operate in a voluntary transfer of routes. The Law Officers had advised that certain existing statutory powers could be exercised in combination, albeit in an unprecedented manner, to secure the compulsory transfer of the routes; but this would certainly be opposed not only by the unions concerned (who had threatened strike action) but also by BOAC and British European Airways (BEA) and, probably, by BUA and by the official Opposition in Parliament. Meanwhile, the situation of BUA was deteriorating rapidly; and the unions had threatened to strike from 3 August unless the airline conceded parity of pay with BOAC and BEA. There was also a risk that Caledonian and their financial backers would withdraw unless a statement of Government policy was made
urgently. The Ministerial Committee on Economic Policy had considered on 27 July his proposal to issue a statement on the lines of that annexed to CP (70) 33. They had attached considerable importance, however, to separating the wages issue (on which the unions were on strong ground) from the political opposition to the second force airline and route transfers (on which the unions had a much weaker case), as well as to avoiding any risk of industrial action which might exacerbate the situation in the docks. They had suggested, therefore, that it would be preferable to delay a statement for a few weeks. Since then the Chairman of Caledonian, together with a representative of his backers had once again expressed confidence that the second force airline could be a success. The funds to purchase BUA were available; but it would not be possible to maintain that position unless a statement was made shortly in order that negotiations with BUA could start. The latter faced the threat of a strike from the following Monday, which would cost them each week a sum equivalent to their latest estimated annual profits. If the strike took place, BUA would go into liquidation; and it was unlikely that Caledonian and its backers would then be able to construct a second force airline. BUA had offered comparability of pay, although not parity; and there was a reasonable chance that the strike would not take place. Even if it did not, both BUA and Caledonian were likely to withdraw from any possible deal if there were no Government statement within the next week. In the circumstances it was advisable that, if there were no pay strike, a statement on the lines of the draft annexed to CP (70) 33 should be made within the next few days. If, however, a strike occurred and BUA went into liquidation, further consideration would need to be given to the situation urgently.

In discussion it was suggested that, even if the dock strike ended on 3 August and no pay strike took place at BUA, it would be preferable to avoid any risk of precipitating an airline strike at the height of the August holiday season by making an early statement about the compulsory transfer of routes, especially since it was unlikely that BUA’s situation would deteriorate irrevocably in the next few weeks. On the other hand, if there were a strike against a policy which had been recommended by the Committee of Inquiry into Civil Air Transport (The Edwards Committee) and had been broadly accepted by both major political Parties, the odium might be expected to fall mainly on the unions rather than on the Government. The proposed takeover of BUA by Caledonian was the only opportunity which could be foreseen for the implementation of this important aim of the Government’s policy; and there was a risk that, if there were no statement in the
next few days, BUA might go into liquidation or Caledonian might finally withdraw from the proposed takeover. In the circumstances it would be worth facing the risk of a strike on political grounds in the hope that a successful second force airline could be established.

In further discussion the following points were made—

(a) Since the power to make an Order under section 3(5) of the Air Corporation’s Act, 1967, was exercisable by the Board of Trade “to such extent as they think desirable in the public interest”, the Courts could be expected to reject any challenge to the validity of an Order on the lines proposed. Moreover, there was a reasonable prospect that, if the Government made it clear that they were prepared to transfer routes compulsorily if necessary, BOAC would in the end co-operate.

(b) It might become necessary to make it clear to BUA’s principal shareholders that the Government would not in any circumstances authorise BOAC to buy the airline. But this need not be considered unless and until they rejected reasonable terms from Caledonian.

The Prime Minister, summing up the discussion, said that, if there were a strike against BUA over the pay issue or if the airline went into liquidation in the next few days, he would arrange, in consultation with the Secretary of State for Employment and Productivity and the President of the Board of Trade, for the position to be considered urgently. The Cabinet agreed, however, that, if both these eventualities were avoided, the President of the Board of Trade might make a statement in the middle of the following week provided that there had by then been a general resumption of work in the docks. This statement would set out the Government’s policy on the lines of the annex to CP (70) 33. The text should, however, be re-crafted in order to make it clear that the Edwards Committee had recommended the establishment of a second force airline and, in so doing, had recognised that a once-for-all transfer of routes would be essential to ensure its success; that the previous Government had accepted the desirability of establishing such a second force and had intervened to prevent the proposed takeover of BUA by BOAC on the ground that this would have prevented any such development; and that the Government had had to consider whether it was right in the national interest to forgo the only opportunity of forming a second force airline which could be expected to arise in the foreseeable future.

The Cabinet—

1. Took note, with approval, of the summing up of their discussion by the Prime Minister.

CONFIDENTIAL
2. Invited the President of the Board of Trade:

(i) to arrange for the draft statement annexed to CP (70) 33 to be amended on the lines indicated by the Prime Minister in his summing up of the discussion;

(ii) to arrange for the amended statement to be issued in the middle of the following week if no pay strike had taken place at BUA, if the firm had not gone into liquidation and if there had been a general resumption of work in the docks.

4. The Cabinet considered a memorandum by the Secretary of State for the Home Department and the Minister of Technology (CP (70) 32) about financial assistance to Harland and Wolff Ltd.

The Home Secretary said that the Belfast company of Harland and Wolff had requested urgent financial assistance through the Shipbuilding Industry Board (SIB) to enable them to carry on business. The firm was insolvent. If they were to stay in business, they required £1½ million immediately; up to £2 million by the end of the year; and up to £4 million in 1971—with possibly further assistance beyond, which could not at present be quantified. They could not raise the money immediately either from the market or from the sale of assets. Although the immediate outlook was poor because contracts had been taken at fixed prices which made inadequate allowance for inflation, there were prospects for the sale or lease of the good, modern shipbuilding facilities. The SIB had recommended a grant of £3½ million under the Shipbuilding Industry Act, provided that the Government undertook to make available any further sums required to keep the company viable. The Law Officers had advised that, given the insolvency of the company and the terms of the Companies Acts, the Government were in no position to meet only immediate needs without accepting an obligation to meet the further requirements of the company. The alternative was liquidation. In view of the present situation in Northern Ireland this would entail the risk of very serious political and economic difficulty. The company employed about 9,500 people in Belfast; and the loss of even half the jobs in the yard would increase the unemployment rate from 4·6 per cent to 6·5 per cent or more, with a much higher rate for males only. In the present disturbed state of Northern Ireland this could have a politically inflammatory effect and, indeed, could seriously affect the stability of the Northern Ireland Government. In the circumstances
he agreed with the Minister of Technology that the SIB's recommendation of a grant of £3½ million for Harland and Wolff should be approved but that only £1½ million should be made available immediately, on the understanding, however, that the Government accepted that the financial needs of the company as foreseen would have to be met by one means or another. The Departments concerned should consider how best to meet the future financial requirements of the company, given the limitation of SIB funds and the desirability of associating this aid as closely as possible with the Northern Ireland Government. The Ministry of Technology would also actively explore, in consultation with other interested Departments, the best means of reinforcing the management and improving the future financial performance of Harland and Wolff (including the possibility of association with foreign interests) and the conditions to be attached to any further assistance from public funds.

The Minister of Technology said that there were certain prospects that the shipyard might be sold to one or other of two foreign shipowners, who would operate it with the help of management expertise from abroad. But, if immediate assistance were not provided, it would not be possible to complete a sale in time to avoid the closure of the yard. He hoped that, if £1½ million were provided now, a further £6 million would be the limit of the Government's future obligations even if the yard were not sold or an alternative solution found.

In discussion there was general agreement that the consequences of closure of the Harland and Wolff shipyard in Belfast would be very damaging. It might be possible, however, for the Government to avoid assuming onerous and expensive obligations towards Harland and Wolff's creditors if, instead of providing assistance direct to the existing firm, they allowed it to go into liquidation and immediately agreed to provide the liquidator with funds to keep the yard working until the assets could be sold or a new organisation (with new management) formed to take them over. Even if no sale were possible, the establishment of a new company freed from obligations to existing creditors would be less expensive than the proposals in CP (70) 32. Moreover, in this way the management and workers at Harland and Wolff and at other shipyards which were in financial difficulties would realise that the Government were not prepared to continue supporting uneconomic firms. On the other hand, liquidation of Harland and Wolff Ltd., even if the shipyard were kept working, might have adverse repercussions on the Northern Ireland economy and on the stability of the Stormont Government. It was suggested, however, that, even if there were no alternative to direct assistance to Harland and Wolff Ltd., this might be provided by way of loan rather than grant in the hope that
the Government would secure some return in the event of an outright sale of the yard. Whatever method of providing assistance was selected, however, it should be such as to improve the chances of attracting a competent management.

*The Prime Minister,* summing up the discussion, said that the Cabinet agreed that steps should be taken to ensure that the Harland and Wolff shipyard in Belfast was not closed down. The Minister of Technology should consider, in consultation with the Home Secretary, whether it would be possible, by providing a loan rather than a grant, to protect the Government's interest in the event of a sale of the shipyard and, indeed, whether it would be possible, by allowing Harland and Wolff Ltd. to go into liquidation, to provide support for the continuation of the yard without assuming onerous obligations towards the firm's existing creditors. Assistance should only be provided on condition that the company complied with any requirements as to the strengthening of their management. Any announcement should make it clear that assistance was part of the help being provided for Northern Ireland, not part of a general policy of supporting uneconomic shipyards. The Cabinet would wish to give further consideration at a later date to the Government's policy in relation to the shipbuilding industry generally.

The Cabinet—

Invited the Minister of Technology:

(i) in consultation with the Home Secretary and the Attorney-General, to take whatever steps might be necessary to ensure the continuation in operation of the Harland and Wolff shipyard in Belfast in the light of the points made in the Prime Minister's summing up of their discussion;

(ii) to arrange for further consideration to be given to the Government's policy in relation to the shipbuilding industry generally.

5. The Lord President of the Council said that, since the Cabinet's last discussion of the subject, the Ministerial Committee on Broadcasting had given further consideration to a proposal by the Minister of Posts and Telecommunications that the British Broadcasting Corporation (BBC) should continue to operate the eight local radio stations already in service and should provide the 12 further stations for which the previous Administration had given approval. The first of the new stations was due to come into
operation on 1 September and the last in February 1971. The capital expenditure on these new stations amounted to £975,000, which £837,000 was already committed. Their cancellation would therefore yield only a very small saving in public expenditure. Moreover, an increase in the broadcasting licence fee had been approved by the previous Administration, and the BBC were free to spend the proceeds on their local radio programmes if they preferred to give those programmes priority over other services. The majority of the Ministerial Committee on Broadcasting agreed that in these circumstances not only the eight existing stations but also the next 12 should be allowed to proceed. This recommendation, however, was subject to the provisos that these stations would operate only on very high frequencies; that the frequency assignments might later be reallocated when commercial local stations were established; and that it should be made clear that there was no commitment in the longer term to the BBC’s operating any local radio stations at all and that any or all of the 20 stations might therefore be subsequently withdrawn from the Corporation. The BBC were displaying a general willingness to co-operate in the preparations for a commercial radio network; and it would be unfortunate if, by cancelling the stations in question, the Government needlessly alienated the Corporation’s goodwill.

The Chancellor of the Exchequer said that cancellation should not result in any significant capital loss, since commercial radio operators would probably be interested in buying the equipment for their own stations. In addition, the operating costs of about £100,000 a year for each station would be saved, to the advantage of the BBC’s finances. It was the Government’s declared policy that, if the private sector was prepared to provide a service, this was preferable to its being undertaken by a State organisation; and in this instance the policy seemed clearly to apply.

In discussion it was suggested that, as against these considerations, the BBC’s capital equipment could probably not be sold at once to prospective commercial radio operations, since a commercial radio network could not come into existence until early 1972 at the earliest. If, on the other hand, the BBC proceeded with their plans, it would be possible for them subsequently to offer to commercial radio companies any equipment surplus to the requirements of their own programme. Moreover, in terms of operating expenditure the Corporation, if debarred from providing a local radio service, would probably wish to restore their regional broadcasting services; and this would entail the sacrifice of an opportunity to transfer a medium frequency to the external broadcasting services. If, however, the BBC were allowed to implement their plans, this would not necessarily involve a
The subsequent increase in the broadcasting licence fee, since the Corporation would be able at that juncture to choose whether the local radio service or some other programme should be reduced in order to enable them to restrain expenditure within the limits of their income. On the other hand it could be maintained that to allow all 20 stations to proceed would be to risk incurring a commitment in practice to the BBC in the field of local radio services, whereas there was no evidence that local radio stations operated by the Corporation would be meeting any expressed demand for additional radio services.

The Prime Minister, summing up the discussion, said that, on balance, the Cabinet agreed that preparations for the next 12 BBC local radio stations were so far advanced that their cancellation at this late stage would be liable to provoke an adverse reaction without achieving any worthwhile saving in public expenditure. Approval to the maintenance of the programme for all 20 stations, however, must be subject to all the conditions proposed by the Ministerial Committee on Broadcasting; and the Government's plans for a commercial radio network should meanwhile be pursued with all possible speed.

The Cabinet—

Invited the Minister of Posts and Telecommunications:

(i) To convey to the British Broadcasting Corporation the Government's decision on the 20 local radio stations already operating or planned, in the terms indicated in the summing up of their discussion by the Prime Minister.

(ii) To submit to the Ministerial Committee on Broadcasting at the earliest opportunity proposals for creating a commercial radio system.

The Cabinet considered memoranda by the Secretary of State for Education and Science (CP (70) 34 and 35) and by the Chief Secretary, Treasury (CP (70) 36), about the Open University.

The Secretary of State for Education and Science said that the Cabinet had asked her, in consultation with the Chief Secretary, Treasury, to examine urgently the possibility of reducing the first intake of students to the Open University. They had also been
asked to consider the possibility of making additional reductions in expenditure on the Open University and to report the outcome by mid-September. The Open University had been granted a Royal Charter, which could not be revoked without the University's consent; it had been voted by Parliament the money which it needed up to April, 1971; and it was authorised from 1 August to accept up to 25,000 students for its first year of operation. In these circumstances she had agreed with the Chief Secretary, Treasury, that to reduce the first year's intake to 15,000 students would secure only a negligible saving of expenditure in 1971 and would save only £1.6 million in 1973-74 and £1.9 million in 1974-75. They had also agreed that it was impossible to identify by mid-September any way of securing significant economies except by arresting the University's opening. This latter course, however, would require the Government to announce the decision before 1 August without any consultation with the University itself or with the educational world in general. It could not fail to provoke major controversy. The Government's first reduction in public expenditure would be seen to fall in the educational sector; and a potentially economic means of providing at a later stage a University education for school leavers might be lost. Given that the Conservative Party had avoided any commitment to cancel the project and had merely indicated before the General Election that they would reserve judgment until it was clear how the project was developing, she recommended that the University should be allowed to maintain its first year intake of 25,000 students but that she should consult the University authorities about the rate of entry in the second and succeeding years, about the possibility of using the University to provide for students under 21 who might otherwise follow other, more costly courses of higher education and about the prospects of increasing the University's revenue in order to limit the level of public financial support.

The Chief Secretary, Treasury, said that expenditure on the Open University was estimated, at constant prices, to rise to about £11 million a year by 1975; and in the event costs could well prove to be higher. If the project was cancelled—a course which need not necessarily involve revocation of the Royal Charter, since the Government could simply refuse to provide finance—the total public expenditure on the University would be some £8 million, including compensation, of which it might be possible to recover some £1.4 million by selling the buildings. If the Government were to achieve the economies in public expenditure which they had envisaged, they would have to eliminate projects which were in themselves desirable and would have to be prepared to face the resultant criticism. The Government had said that in the educational sector they would give priority to primary schooling; and they were
not committed to the Open University project. To cancel it would indicate that they were serious in their declared intention to reduce public expenditure.

In discussion it was pointed out that the plans for the Open University were now far advanced and that the University was on the point of accepting its first students. It had attracted powerful and influential support; and its estimated cost per student, even allowing for a high wastage rate, was likely to be considerably lower than that of conventional universities. It not only offered the prospect of providing re-education for mature students but might also provide a valuable and economic means of meeting the demands of school-leavers for University education. On the other hand it could be argued that the Open University was only experimental and would not provide a genuine university education; that it did not necessarily represent the best means of investing public money in higher education; and that in any event it could not be automatically assumed that it would be necessary to provide higher education for a larger number of school-leavers and others as had been so far envisaged. Moreover, most of the students of the Open University in the first few years of its operation would be earning; and they should perhaps be expected to be able, without additional grants from local authorities, to pay more than the modest fees currently proposed.

The Prime Minister, summing up the discussion, said that the Cabinet agreed, on balance, that, on the understanding that expenditure on the Open University would be taken into account in future consideration of the level of public expenditure on higher education, the project should be allowed to proceed with plans to take in 25,000 students for its first year of operation. But the Secretary of State for Education and Science should consider with the authorities of the University, the most appropriate scale for its future operations, the rate of intake in subsequent years, the need to provide for students under 21 and the prospects for increasing the University's revenue, particularly by an increase in fees without an offsetting increase in local authority grants.

The Cabinet—

1. Agreed that the Open University might proceed with plans for an intake of 25,000 students in its first year of operation.

2. Invited the Secretary of State for Education and Science, in consultation with the Chief Secretary, Treasury, to give further consideration to the future scale of the Open University.
University's operations, the number of students which it should accept in its second and succeeding years, the need for the University to provide for students under 21 and the prospects of increasing the University's revenue on the basis suggested in their discussion.

Cabinet Office, S.W.1,  