

# TREASURY

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PART J

MISCELLANEOUS PAPERS

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PA(14/7/87) PAR 7/1/94

## CLOSED

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PART K

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PART J



E(LF) ETC.

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*pip*

CHANCELLOR

FROM: B H POTTER

Date: 1 July 1987

cc: Chief Secretary  
Sir P Middleton  
Mr F E R Butler  
Mr Anson  
Mr Gilmore  
Mr Hawtin  
Mr Burr  
Mr Holgate

BRIEF  
ON  
E(LF)  
87(18)

*Ch*  
*I'm not sure what is more alarming: Mr Ridley's paper or this brief. I have written in alternative lines.*

*AA*

*CST (abetted by Jill Rutter) felt the same and must better brief below.*

E(LF): COMMUNITY CHARGE: TRANSITIONAL ARRANGEMENT

Background

1. At last Thursday's Cabinet, Mr Ridley and Mr Baker were invited to prepare papers on the "London problem" - the very high community charge (CC) levels expected in inner London because of excessive spending particularly by ILEA. Decisions were seen as urgent so that work on the Abolition of Domestic Rates and Education Bills could proceed.

2. Mr Baker's response - his memorandum E(LF)(87)20 - is actually concerned with the practicalities of opting out from ILEA. HE are briefing on this separately. Mr Ridley's memorandum, E(LF)(87)18 considers the introduction of the CC more generally: he proposes

- a full introduction of the CC in 1990 without any transitional period: (the PLG Green Paper proposed a 10 year transition)
- no safety net for most LAs; (the Green Paper proposed a self-financing scheme over the transition period)

- some possible measures to ease the transition in London; and (rather more tentatively)
- direct action to curb ILEA spending.

3. Our recommendations on these are as follows.

i) We question the wisdom of full introduction of the CC in 1990. If there is no transition period, as a necessary consequence, domestic rates will be abolished in 1990 and difficult to revive thereafter. They would not be available to augment LAs uncertain revenue from the CC; and we believe they could help ease the severe transition problems expected particularly in London. We suggest you argue for caution and for retention in legislation of domestic rates.

*not a good argument here*

??  
06 ii) You should support no safety net for LAs outside London when the CC is introduced.

iii) You should propose that officials should consider further how a cost-effective scheme to ease the transition in London might be developed.

iv) You might support any proposal for a further review of options on ILEA and in particular the idea of an Appointed Board to run the Authority.

*Not what Tim Burrows says.*

Transitional period

4. Mr Ridley's arguments for no transition period to the CC are that it would save money (an estimated £50m p.a), relative to running both a CC and domestic rates system; that it would help create at the outset the increased local accountability which is at the heart of the PLG system; and that it can be expected to result in a quicker response by local authorities to their electorates wishes and hence lower overall LA expenditure. (The timing of elections in London may however delay any beneficial impact there effectively till 1994, unless changes are made to the dates of the elections.)

Ch

This briefing line is madness. You can't argue that we need to keep the legislation for domestic rates just in case a poll tax proves unworkable & we need to reintroduce rates!

Correct line is that

(a) it is clear that there will be considerable opposition to community charge

(b) therefore need to phase it in gradually, so that initial amounts paid are small.

(c) this points to phasing in community charge and phasing out rates, so that no-one gets 'landed' with large loss immediately

No good following macho line that socking everyone into large <sup>initial</sup> poll tax bill is way to shock people into voting for responsible council spending; all too likely they'd just turn around in 1991/2 & vote in national elections for party that will repeal poll tax.

Ditto for line on safety net. All very well saying large % increases from low base. But try holding Hyndburn at the next election after a 50% reverse in average local tax bill!

5. A necessary consequence of full introduction of the CC in 1990 is the early abolition of domestic rates; and it would thus remove the opportunity to hang on to domestic rates as an alternative, or additional, source of local revenue. The additional administrative costs of running both systems have been noted; but the practical difficulties of collecting the CC are as yet untested - they are likely to be at their worst in inner London because of the more peripatetic population and unco-operative attitude of several boroughs. It is arguable that a more cautious approach of retaining the two systems would not only preserve political options but also provide greater security of own income to individual LAs - and hence less potential claim on the Exchequer for transitional grant.

?? 6. Mr Ridley's arguments against any transition period are attractive. But you will wish to remind colleagues that they can only support this proposal if they are prepared to accept the consequences of the early abolition of domestic rates. While abolition of domestic rates represents the Government's present policy intention, it may be prudent to draft the Bill in a way that would allow their retention on a partial or fall-back basis, not least because the practical problems of introducing the CC particularly in London, may best be resolved by retaining domestic rates for a transitional period (see paragraph 17).

#### Safety nets

7. Safety nets to dampen the distributional consequences of the shift in the tax base from households to adult population are in principle unattractive; just like any transition period, they would prevent the improved accountability which underpins the PLG system. In practice, outside London, most of the households adversely affected would not face large proportionate increases in the tax burden per adult. But Mr Ridley has identified 19 authorities in England where increases of over 40% will occur on this measure. And we understand from Welsh Office that there will be large proportionate increases in a number of their authorities also; as a result, Mr Walker will press for transitional support for those faced with the highest increases. Mr Ridley's view is that, since the increases are from a very low base (a fortiori in Wales), they are acceptable.

No question of English CC payers  
supporting Welsh ones. But if  
Mr Walker wants to run self-financing  
scheme of safety nets within Wales  
then no objection.

*See facing page.*

8. We recommend that you should support Mr Ridley and resist any scheme to subsidise CC payers in Wales. There is no doubt that it will be uncomfortable for those in Barnsley, Rotherham, Doncaster and Sheffield who will face a high absolute CC as well as a sharp increase in the tax burden. But the full PLG system should operate in as many areas as possible if there is to be any prospect of checking LA spending in such areas. And the absolute levels of CC even in the worst affected areas outside London, are not in the same league as those for most inner London boroughs.

#### London

9. The problems in London are very much more severe. The causes are well-known. In part, it is overspending by ILEA (82% above its assessed need in 1986/87); but individual boroughs are also spending well above their GREs. And the effect of rate-capping has been less to curb the growth in the authorities' spending than to lead them to find creative ways of financing their expenditure. The liabilities built up by these accounting measures will have to be unwound, partly before but also after 1990. We are inclined to share the views expressed in paragraph 9 of Mr Ridley's memorandum: continued rate capping and further curbs in creative accounting will not have much impact on inner London LAs spending by 1990 and the prospect is therefore for very high CCs in inner London.

10. It is a serious omission from the paper that, while there are figures for the absolute amounts of CC, there is no information on what that means in terms of shares of the disposable income of different income groups and the numbers in such groups. But there are some worrying indications. It is proposed that there should be a 20% minimum contribution to the CC for all adults; and it is expected that those on income support will receive an addition to their income set at 20% of the <sup>in GB</sup> average CC. On this basis, a person on income support in Lewisham might have to find an extra £84 a year. Those on low incomes not eligible for a rebate would face increases of over £500 a year on a per adult basis. In five other London boroughs, the increases would be even higher.

✓ (but in early stuff)



11. Until we have further information on the numbers affected and the size of the payments, you may not wish to concede that transitional arrangements will be required at all in London. Our provisional conclusion, however, is that they are likely to be unavoidable. By 1990 spending will not be much reduced, if at all, from its current real level; the PLG system will remove the non-domestic tax base from inner London boroughs; the adult population in these boroughs is too small and on average, too poor a tax base to finance their expected contribution to that level of spending. And there is a likelihood that high CCs would encourage a political challenge to the PLG scheme in London.

What?

12. Mr Ridley seems to have been reluctantly driven to the same conclusion. He puts forward three potential schemes to ease the transition in London:

- CC capping;
- special grant;
- annual elections.

*This is all wrong too. We need capping until local accountability has been proved to work. And especially in short-term when authorities all too likely to hump up spending & blame Govt for size of bill tax bills.*

CC capping

13. Community charge capping cannot be a desirable long-term feature under the PLG scheme as Mr Ridley recognises: it cannot be reconciled with full local accountability. But in our view it is questionable whether it is the right short-term solution to the transitional problem in London. If inner London boroughs had their CCs capped, in an effective way (ie that could not be circumvented by further creative accounting), the scale of the adjustment to spending, given the need to unwind existing creative accounting liabilities, would be extremely difficult to deliver both in practical and political terms. Alternatively, despite our increasing efforts to block the creative accounting devices, on the basis of past experience, capping may not prove effective in curbing expenditure; and the liabilities from creative accounting would continue to grow. Some authorities could end up being capped for a period of years to avoid unacceptable rises in the CC; this kind of continuing distortion cannot be sensible within the PLG regime.

14. While rejecting capping as a transition mechanism, we nonetheless think it would be a useful contingency measure to retain within the armoury (despite its logical incompatibility with accountability). Officials should be invited to examine the details of the scheme in annex A: we see room for improvement eg by linking the limit to public expenditure rather than total expenditure.

#### Special grants

15. In annex B, Mr Ridley sets out proposals for a direct help scheme. This envisages a charge limit of £350 in the first year, with the remainder provided by a special grant. In the second year, half of the gap between that and the full charge would be added. In the third year, the full charge would be levied. All additions to spending above that of the base year would feed through to the charge. The scheme phases out quickly therefore. But the costs in the first year are £390 million, equivalent to £12 per adult, if added to all other community charges, or 5.1% of England's non-domestic rate yield.

16. One improvement to this scheme would be to relate payments even in the first year to the true level of the community charge. Depending on exemplifications, it might be possible to charge a flat sum plus one-third of the difference between that sum and the full charge in year 1, two-thirds in year 2, and the full amount in the third year. But we reckon that even this would cost £260m.

17. There are other options, however. The first would be to retain domestic rates in London for a short transitional period, with the CC run in parallel and an appropriate division set between them. The high domestic r.vs in London, even if some continuing relief were given, would provide the kind of tax base needed in inner London to finance the boroughs spending; the incidence of rates falls more heavily on higher income households. It is arguable that the special problems in London need access to this tax base for a short, say three year, transition period, before spending can be brought to a level consistent with an acceptable CC in inner London. Even then some access to Exchequer grant for certain boroughs would probably be necessary. The second would involve some continuing access to non-domestic rate income; special access at a higher rate per adult to the NNDR

pool could be allowed to alleviate the London problem. Effectively this is a transfer of non-domestic rate resources from outside inner London; a plausible defence, used to support the present London Rate Equalisation Scheme, is that inner London boroughs face expenditure on account of non-residents who work but do not live in the boroughs.

*Best transitional scheme is to phase out rates slowly*

18. We consider that some kind of direct help scheme is likely to be the most attractive approach. It is costly: but that cost could be met from both CC payers or non-domestic rates rather than the Exchequer, though at the cost of some loss of accountability. But some kind of scheme, however financed, is in our view the price to be paid if the Government wishes to secure the benefits of a fully operational PLG scheme outside London by 1990. We recommend that you ask for further work by officials to consider cost-effective schemes in particular options financed by other CC payers or non-domestic ratepayers.

#### Annual elections

19. These would require a reorganisation of wards in most London boroughs. Past DOE studies indicate that annual elections may not reduce the growth of spending, just change its pattern so that there are steady annual increases rather than a surge every four years. But with wider accountability in prospect, it could be worth considering further, not least because the timing of elections in London could otherwise prevent any benefits from introducing PLG appearing till 1994.

*Why should people outside London subsidise ILEA/ Camden over/under?*

#### ILEA

20. Finally, Mr Ridley appears to suggest, albeit tentatively, direct action on ILEA. But his only active proposals in paragraph 9 iii) and iv) would unstitch the agreement on the funding of opting out agreed before the election. As already noted, ILEA is not the only cause of the "London problem"; at the same time, action to reduce its spending would alleviate that problem. HE are briefing separately on the options for ILEA; the idea of an appointed board to run the authority should be one of those options.

*Barry H. Potter*

B H POTTER

From: Ms P A Boys  
Date: 1 July 1987

Chief Secretary

cc: Chancellor  
Financial Secretary  
Economic Secretary  
Paymaster General  
Mr F E R Butler  
Mr Anson  
Miss Peirson  
Mr Hawtin  
Mr Turnbull  
Mr McIntyre  
Mrs Wiseman  
M. Mullen

**FUNDING RESIDENTIAL CARE**

It may be helpful to summarise the factors that led the Joint Working Party to the conclusion that transferring responsibility for funding residential care to local authorities would be an improvement on present arrangements.

Residential care represents only one stage ( usually the last one) in providing support for those whose frailty is such that they cannot manage on their own. It is expensive (current limits on payments are £130 per week, and most homes charge the maximum). Having this one form of care funded by social security means that local authorities, who have responsibility for the broader range of support services ( meals on wheels, home helps etc), can minimise their own costs by encouraging people to enter residential care sooner than is necessary ( or in a few cases, where it is not necessary at all). Public expenditure is thus higher than it otherwise need be.

The JWP therefore looked for a way of limiting public support for residential care to those who are assessed as needing it. There are no simple tests that could establish such need. A judgement would have to involve knowledge of the person concerned, his family circumstances, and the range of alternative support services actually available to him. Local authorities, the voluntary sector, community health services and the private sector might all have a role to play in providing these services. But the availability of such services is patchy. So a frail person in one

area may be well able to remain in his own home, or move to sheltered housing: whilst another, in exactly the same physical or mental condition, might require residential care. It seemed inconceivable that DHSS staff could undertake assessments of this sort of need.

Would it therefore be sensible to ask local authorities to undertake assessments on DHSS's behalf? Some local authority members of the JWP were much attracted by this course. However, central government members judged that this change would do nothing to lessen the present financial incentive for local authorities to encourage an early move to residential care. Whenever local authorities found their own resources stretched, passing financial responsibility for care to DHSS would be too attractive an option. We should thus be left with the present unsatisfactory situation of more people being supported in residential care than is necessary, and should in addition be paying local authorities increasingly large sums to undertake assessments. This option thus has the appearance of better targeting of public expenditure, and better accountability, without in reality achieving a different outcome.

There is an additional argument in favour of co-locating responsibility for funding residential care with local authorities who regulate private homes. Some local authorities exercise these regulatory responsibilities over zealously, imposing on private sector homes conditions that far exceed those which they observe in their own homes. If they have to meet the cost of the fees of those requiring public support, then a more reasonable balance between cost and standards should be struck.

There are some who believe that the change proposed by the JWP will bring desirable social consequences, by giving an incentive to the provision (by the private sector as well as by local authorities themselves) of alternative support services. This should increase the real choices available to those needing support.

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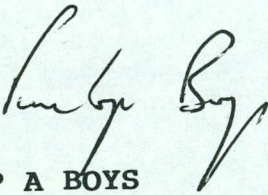
It is clear that, as you note, the Residential Home proprietors will oppose the change. But they will oppose any attempt to limit public support to their prospective clientele. If no attempt is made to restrict access, then we shall be faced with a rapidly mounting bill for social security payments. Some local authorities have already said that, if the status quo is confirmed, they will run down their own provision ( as well as withdrawing from financial sponsorship of residents in the private homes), leaving DHSS to pick up the entire responsibility for this group. With current expenditure by local authorities of some £650m pa, this means that the social security bill will soon be well over £1 billion, even without allowing for future demographic growth. The only way DHSS can affect the size of this bill is by reducing limits on charges - a course that will also not commend itself to Residential Home owners. If local authorities withdraw altogether from residential care, we can remove an appropriate sum from LA provision. However, this will not necessarily mean that local authority expenditure is proportionately reduced.

The JWP certainly expected that there would be some slowdown in the growth of residential care as a result of Option II. But a slowdown is inevitable if we wish to reduce the growth in public expenditure in this area. As for hostile relationships between local authorities and residential homes, it is perhaps worth noting that the majority of private homes are concentrated in coastal resorts ( eg Torquay, Southport). Local authorities in those areas in fact have a good tradition of partnership. Those who are ideologically opposed to private sector provision ( eg Camden) tend to be in high cost or unattractive areas where private home owners do not in any event wish to set up business.

I am afraid that the choices offered are all difficult. If we are prepared to accept further escalation in social security expenditure on residential care, regardless of whether that represents best value for the taxpayer, then the choice lies between the status quo or Option I ( DHSS financing all such care). If we want to take action to target public expenditure more effectively, and to restrict its growth in this area, then Options II or III commend themselves. Option II is administratively

17j

simpler and should do more to stimulate the provision of alternative support services. You may wish to discuss the issues further.

  
P A BOYS

From: Ms P A Boys  
Date: 1 July 1987

Chief Secretary

cc: Chancellor  
Sir P Middleton  
Mr Butler  
Mr Anson  
Mr Gilmore  
Mr Hawtin  
Mr Scholar  
Mr Turnbull  
Miss Peirson  
Mr Potter  
Mr Gieve  
Mr Fellgett  
Mr Cropper  
Mr Tyrie

**RATE SUPPORT GRANT SETTLEMENT 1988/89: PERSONAL SOCIAL SERVICES**

**SUMMARY**

There is no point in taking issue with the various points on distribution of provision and rate capping raised in Mr Moore's letter of 29 June. E (LA) will settle those points. But it is worth challenging his contention that PSS provision should be increased by £10m over and beyond the recommendations of the joint DHSS - local authority Expenditure Group.

**BACKGROUND**

Mr Moore argues that:

- (i) £5m should be added to PSS provision to help those LAS with a large number of AIDS victims to provide support services; and
- (ii) £5m should be added to permit the Disabled Persons Act 1986 to be implemented in respect of disabled children leaving school in 1988 and 1989.

On (i), the Expenditure Group's recommendations already include an addition of £2.5m for AIDS, and a further £3m for training for staff dealing with AIDS victims. This is in addition to £5m already in the baseline for AIDS and drugs. Local authorities were



asked to provide information on the impact of AIDS on their costs and there was a very poor response. So there is no supporting evidence to validate Mr Moore's contention that a further £5m is necessary. His case for this also rests on his view - yet to be raised with you - that LAs should be influenced to spend a proportion of PSS provision by a new specific grant. Without specific grant powers, there is no means of targetting expenditure to particular expenditure. There are of course wider reasons why you would wish to oppose an extension of specific grant.

The question of how far and how fast the Disabled Persons Act 1986 should be implemented is one which Mr Moore will be raising with colleagues in H Committee. Until you have had a chance to look at his overall bids, and to discuss the scope for offsetting savings from the central government spending in the Survey, it would be premature to add anything further to PSS provision. £10m is already provisionally included in the Expenditure Group's recommendations, to provide for the identification and assessment of disabled children leaving school in 1990. We have told DHSS that there can be no presumption in favour of this recommendation until the question of further implementation of the Disabled Persons Act is settled. Whether LAs would agree with Mr Moore's estimate that a further £5m is sufficient to implement the Act for school leavers in 1988 and 1989 he does not say.

#### CONCLUSION

From our point of view, the Expenditure Group's recommendations for provision are already high. It remains to be seen whether they can be accommodated within the aggregate provision to be fixed in E(LA). To go beyond the recommendations, adding provision that goes beyond LAs' own assessment of the costs they face, would be extravagant. I attach a draft letter for you to send to Mr Moore.

This submission has been agreed with LG.

**DRAFT LETTER FOR CHIEF SECRETARY TO SEND TO MR MOORE, cc members of E (LA) and Sir Robert Armstrong**

**PSS PROVISION FOR 1988-89**

Thank you for sending me a copy of your letter to Willie Whitelaw of 29 June.

We have of course discussed the question of rate limitation at E (LA). And in due course we will turn to the distribution of provision to services. I do not want to comment outside that forum on the points you raise relevant to that discussion. However, I must express my concern at your two suggestions for increasing total PSS provision beyond the recommendations of the Expenditure Group. Those recommendations, if implemented, would represent expensive additions to public expenditure. To go further, as you propose, and add £10m for extra expenditure on AIDS and for swifter implementation of the Disabled Persons Act, would be imprudent.

The Expenditure Group's recommendations already include the sum which local authorities judged necessary to enable them to respond to the needs of AIDS victims. From what estimates and on what basis have you formed the view that a further £5m is essential?

So far as the Disabled Persons Act is concerned, we have yet to settle the whole question of the pace and coverage of its further implementation. The necessary offsetting savings will doubtless be one of the issues that you and I will discuss in this year's Survey. Until our discussions are complete, it is strictly

speaking premature to include any additional PSS provision. But at least the £10m included in the Expenditure Group's recommendations represents a sum agreed with local authorities as that necessary to implement the Act in respect of disabled school leavers in 1990, should that course commend itself to us. You do not say whether the £5m addition which you propose for advancing implementation of this part of the Act to school leavers in 1988 and 1989 has even been agreed with local authorities. On reflection, I feel the right course for the present is to exclude **any** provision to implement this Act.

I am sending a copy of this letter to members of E (LA) and to Sir Robert Armstrong.

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FOR THE USE OF THE INSPECTORATE ONLY

LEA PROVISION FOR EDUCATION AND THE QUALITY OF RESPONSE IN SCHOOLS AND COLLEGES  
IN ENGLAND - 1986

(A REPORT BY HM INSPECTORS)

## INTRODUCTION

1. This is the tenth of HM Inspectorate's short annual reports on the educational provision made by LEAs in England and the quality of the response to that provision of pupils in schools and students in colleges and other educational establishments. It is based on two kinds of evidence: that derived from our routine and specifically programmed visits to schools and colleges during the autumn term of 1986; and the returns made in November 1986 by our district inspectors (for schools, and for further and higher education) for each of the 97 Local Education Authorities (LEAs) in England (except for the Isles of Scilly), which combined their assessments with data supplied by the LEAs themselves.
2. As in previous years, this report seeks to cast light upon the efficiency and effectiveness with which resources are being provided at a time when expectations of education are both rising and changing. The levels of resources available and the complex relationship between what is spent on education and the quality of what is actually provided in schools and colleges continue to be a focus of public attention. In inspection visits, HMI assessed the provision made for pupils and students and their response, as well as exploring a number of factors which contributed to the quality of what was observed. Such factors included the quality of teaching, the level and appropriateness of the resources available and the management and deployment of those resources.
3. The data collected from the autumn 1986 visits cannot be taken as statistically representative of the country as a whole, of any one LEA, or of any type of institution; this is not, and never has been, an annual report on the state of education in England. Furthermore, the sum of the observations of individual lessons cannot be directly related to the assessments made by

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district inspectors of LEAs' provision overall. But the observations are sufficiently numerous and diverse to give some indication of current trends and to provide a reasonable picture of the general position in schools and further and higher education, particularly when set alongside information from previous expenditure reports and other HMI publications.

4. The district inspectors' returns consist of statistical and financial information provided by each LEA about overall levels of expenditure and the distribution of resources in each authority for the years 1985/86 and 1986/87 and the district inspectors' broad assessment of the appropriateness of that provision and of the impact of any changes. The report does not take account of any changes in expenditure policies, actual or planned, since autumn 1986.

5. The assessments made throughout are our professional judgements. They do not relate only to LEA expenditure policies, nor solely to the year 1986/87. The quality of provision and response depends on past levels of expenditure and hence the basis of provision on which current policies build; on the quality of management at all levels in the service; and on such factors as the effect of falling rolls and consequent reorganisation. As previous reports have consistently emphasised, the relationship between educational expenditure and the quality of the education provided in individual institutions is neither simple nor direct.

6. The form of the report differs from those of previous years. In order to focus sharply on the principal issues and messages, the underlying data drawn from LEAs and from HMI visits and the assessments of district inspectors are presented in tabulated form. Presenting the information in this way makes it necessary to treat the two parts of the exercise separately to a greater extent than has been done in the past three years. The nature of the exercise precludes any guarantee of the reliability of financial or other data supplied to HMI; comparisons between successive years should be treated with caution, since they conceal, for example, changes by LEAs in the basis of their calculations and returns are often incomplete.

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## PRINCIPAL MESSAGES

1. In broad terms the picture given by this report is not significantly changed from that of 1985. Most classes, both in schools and in further and higher education, received at least satisfactory teaching and other provision; and the response of pupils and students in terms of attitudes and learning was even more generally satisfactory or better. But there are a number of significant and interesting features. Some of these have been reported for several years; others are new or more noticeable this year.

- i. There is in general an adequate supply of teachers in schools, non-advanced and advanced further education (NAFE and AFE). In about three quarters of LEAs, the provision of teaching staff in schools is judged broadly satisfactory, and the same is true for FHE in almost all LEAs. However, while better LEA management of the teaching force could do more to ensure that these teachers are deployed in the most appropriate ways, there remain some serious shortages which cannot be resolved in this way. In primary schools, there are still classes with more than 35 pupils, and some LEAs are experiencing difficulty in recruiting teachers of the youngest children. In secondary schools especially, there are severe shortages of teachers in particular subjects which lead in some instances to curricular reductions. In some LEAs, difficulties in filling senior posts are caused partly by the high price of housing, and these problems contribute to the weaknesses in leadership which remain a significant factor in a minority of schools of all kinds.
- ii. The period covered by this report was one in which the long-running teachers' dispute over pay and conditions continued. However, the autumn term of 1986, when visits were carried out, was largely free from direct effects on classroom activity, although the legacy of prolonged upheaval was still being faced in many schools.
- iii. There is a slight improvement in the numerical levels of non-teaching staff of all kinds, but the effectiveness of support available from

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such staff was judged rather less satisfactory than it was in 1985, because especially, of the increased demands of many curricular developments. The benefits gained from the greater amount of non-teaching support provided through the Technical and Vocational Education Initiative (TVEI), Lower Attaining Pupils' Programmes (LAPP) and Youth Training Schemes (YTS) threw into relief the low<sup>er</sup> level<sup>s</sup> more generally available.

- iv. There was a small increase in the number of LEA advisers and inspectors and the service they provide is judged to be slightly better than last year. A more substantial increase, in most LEAs, in the number of advisory teachers is linked with the growth of initiatives such as TVEI and LAPP and also to Education Support Grants (ESG) and TVEI-Related In-Service Training (TRIST). There remains a widespread shortage of advisory support from LEAs for further education.
  
- v. Most LEAs have increased their spending on the maintenance of accommodation for schools and FHE, but the unsatisfactory state of many buildings, which has been reported for a number of years, persists and in some cases continues to deteriorate. In a fifth of all classes seen in schools, a similar proportion to that recorded last year, accommodation is judged to be having adverse effects on the quality of work, usually because of its unsuitability for specialist use or its poor condition. In many LEAs problems, by no means confined to older buildings, and often exacerbated by serious vandalism and arson, lead to an increasing backlog in repairs and maintenance. More authorities report increases in the intervals in their redecoration programmes for schools and colleges than state that they have reduced these. In addition, in schools there is widespread concern about the state of furniture: some has reached the end of its useful life with no prospect of replacement; some is inappropriate; and some awaits long-needed repair. Although such difficulties are in general less pronounced in FHE, the disposition of buildings remains a problem, with the frequent

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reliance on annexes, some of them in poor condition. The youth and community service and adult and continuing education often have to function in unsuitable and dilapidated accommodation.

- vi. Levels of capitation increased in most LEAs, many of which spoke of the higher costs of textbooks and the need to underpin a range of national and local curricular developments. In only an eighth of the visits made to schools were shortcomings in provision attributed to unsatisfactory capitation levels. However, there remains great variation between and within LEAs in spending levels for each pupil and student. A noticeable trend, though still limited in its effects, is towards increased financial delegation by LEAs to individual schools: because, under schemes of this kind, levels of capitation may be supplemented according to the priorities decided by individual schools and because of the long-standing variations in the ways in which capitation is allocated, it has become increasingly difficult to generalise about the adequacy of schools' spending on books, equipment and materials. A widespread concern, however, which has surfaced even more prominently this year is the quality and use of secondary school libraries. Many are inadequately or inappropriately stocked; and even where provision is satisfactory the use which is made of them is often poor. The same is true of the use of books more generally in many schools, especially at the secondary level: in many visits, books were found to be ignored even though adequate stocks existed and their use would have been beneficial. Although much new equipment, especially in computing, is continuing to find its way into schools and colleges, problems over obsolescent equipment are also reported, for example outdated machinery for some vocational courses. It is disappointing to find that, with the increasing range and amount of information technology available to schools, its effective use across the curriculum is still so rare, although successful examples were encountered in primary schools especially.



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- vii. Financial provision for in-service education and training (INSET) increased in most authorities for both schools and FHE. Improvements were noted as a result of the clearer identification of priorities, more effective planning and, frequently, benefits were derived from the allocation of funds especially by central government for specific purposes, such as TRIST and the use of ESG resources for mathematics in primary schools.
- viii. A particular development which calls for comment is the introduction of the General Certificate in Secondary Education (GCSE). Beyond the expenditure incurred by LEAs as part of the ESG programme for this new examination, their support varied considerably, from LEAs which contributed nothing at all to an estimated £160 for each fourth year pupil. In general, in autumn 1986 the London Boroughs (LB) and Metropolitan Districts (MD) were providing more than were the Non-Metropolitan Counties (NMC). However, a number of LEAs which had withheld funds at the start of 1986-87 were disbursing them once it was clearer what was needed.
- ix. Parental contributions to schools in cash and kind remain substantial, though both have declined slightly this year after a succession of gradual rises. In just over 5% of primary schools parental contributions more than double capitation allowances, and many secondary schools also receive a major boost from this source. These efforts are, of course, greatly welcome to the schools which receive them; but not all schools can hope to benefit to the same extent, and some do so hardly at all. Consequently, financial contributions by parents add to the wide variations already noted.
- x. Indeed, the considerable variation in what is offered to and provided for pupils and students at every level is a central and recurrent theme. That variation, to an increasing extent, is being widened by the greater, but selective, provenance of initiatives which direct funds to specific purposes. Many of these are now bringing about significant changes, often improvements. While there are real

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strengths in variety, the extent and haphazard nature of much of the variation observed are causes for concern. A striking feature on a number of aspects of provision is the variation between the generally satisfactory position in the London Boroughs (LB) with a much more uneven picture in the Metropolitan Districts (MD) and, particularly, the Shire Counties (SC). Nor do variations within a single year's spending tell the whole story. In looking at percentage increases in spending, the wide divergence in baseline provision must be borne in mind; the scope for development and improvement provided by a 5% increase in this or that head of expenditure depends on the base on which recipients have to build. These variations in starting points apply at every level: in the wide differences in LEAs' spending per pupil or per student; in the suitability and state of accommodation; in the quantity and quality of books, equipment and materials available to schools, colleges, subject-departments and classes; in the extent of participation in the various specifically funded initiatives; and in the amount and nature of parental support available.

- xi. In FHE, youth and community and continuing education, enrolments are mostly buoyant, with demand outstripping provision in many areas, especially in vocational Non-Advanced Further Education (NAFE); sponsorship of students by the Manpower Services Commission (MSC) has contributed significantly to this general pattern. The Work-Related NAFE initiative has begun to have beneficial effects, and in many LEAs the need to construct a development plan is helping to direct resources more effectively.

2. As in previous years, this exercise shows that, while levels of resource provision are important, the quality of teaching is vital to the effectiveness of education. So, too, is the efficient and appropriate management of people and resources, at all levels from the LEA to the classroom teacher. As a corollary of this, unsatisfactory standards of provision are more often related to ineffective deployment of people and resources than to shortages of the resources themselves. Two issues again emerged as crucial to improvement in educational standards in schools, higher expectations of pupils by teachers and

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more effective leadership by heads and heads of departments. In 1986, as in 1985, there were too many classes where poor or barely satisfactory work was characterised by inadequate perception of pupils' needs. However, such classes were in a minority: much of what was seen was broadly adequate; two-thirds of LEAs were judged satisfactory in the majority of categories of provision; by and large schools and colleges have made strenuous efforts to respond to national and local expectations and initiatives; there were improvements in INSET and advisory support; and the picture of FHE was, broadly, of a healthy and responsive service.

## I. SCHOOLS

### 1. OVERALL ASSESSMENTS

11. In the last three years, reports have included overall assessments of LEAs across the main aspects of their provision for schools; the categories assessed are: teaching staff (primary and secondary); non-teaching staff; advisory service; in-service training (INSET); accommodation; books, materials and equipment. The same assessments have been made this year, so that some general comparisons across the four year period are possible. In 1986/87 9 LEAs were considered satisfactory or better in relation to all the major aspects of their provision for schools. The equivalent figures for 1985/86 and 1984/85 were 12 and 11 respectively. Fifty-five LEAs were judged to have satisfactory levels across the majority of aspects of provision. Thus, 64 LEAs (65 last year) had all or a majority of the aspects of their provision judged satisfactory in 1986/87. Thirty-two LEAs were judged to make less than satisfactory provision in a majority of the aspects; in both 1985/86 and 1984/85 the figure was 31. As in the previous three years no authority was judged less than satisfactory in all the main aspects of provision.

12. In the autumn term of 1986, HMI made 1913 returns from 1788 visits to schools. The number of classes seen was 11,875: 4613 were in primary, 7016 in secondary and 246 in special schools. Table 1 analyses the visits made by type of school, and gives the 1985 figures for comparison. There was a large rise in the number of secondary schools visited; the first term of schools' work towards GCSE was a principal reason for the shifting balance. For each visit made, the overall quality of work seen was assessed, wherever such an assessment was thought possible. Table 2 summarises the aggregated data from all HMI visits with 1985 figures attached for comparison. The consistency of the assessment from 1985 to 1986 in both primary and secondary schools is notable and recurs in the various assessments offered; fluctuations in the assessments for special schools may be attributed largely to the small number of visits made.

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Table 1

## NUMBER OF SCHOOLS VISITED ON WHICH RETURNS WERE MADE

	1986	(1985)		1986	(1985)
Primary*	735	(863)	Mixed	1673	(1520)
Secondary**	1009	(729)	Girls	46	(62)
Special	44	(56)	Boys	52	(66)
<b>TOTAL</b>	<b>1788</b>	<b>(1648)</b>	<b>TOTAL</b>	<b>1771***</b>	<b>(1648)</b>

\* includes middle deemed primary

\*\* includes middle deemed secondary

\*\*\* excludes 17 schools where information was not recorded

Table 2

## ASSESSMENTS OF OVERALL QUALITY OF WORK IN SCHOOLS VISITED

Overall quality of work	Satisfactory or better	Less than satisfactory	Total
Year	1986 (1985)	1986 (1985)	1986 (1985)
Number of Schools (All types)	1021 (1083)	230 (235)	1251 (1318)*
Overall Percentage (All types)	81.6 (82.2)	18.4 (17.8)	100
Primary: Nos	479 (574)	110 (119)	589 (693)
%	81.3 (82.8)	18.7 (17.2)	100
Secondary: Nos	515 (474)	104 (113)	619 (587)
%	83.2 (80.8)	16.8 (19.3)	100
Special: Nos	21 (35)	14 (3)	35 (38)
%	59.0 (92.1)	41.0 (7.9)	100

\*Excluding those visits where HMI were unable to give an overall assessment. Expressed as a percentage of all 1788 schools visited, the proportion judged satisfactory or better remains at about 69%.

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13. In addition to these overall assessments, judgements were made of the quality of provision and the quality of pupils' response\* for each class seen, as well as recording the subject-matter of the lesson, the age and ability-range of pupils and, in the case of special schools or units, the dominant type of learning difficulty. Table 3 summarises these assessments for types of school and overall, with 1985 figures in brackets. The percentage of 81.6% of lessons judged satisfactory or better for pupils' response is the same as that for the overall quality of work in schools (Table 2). As in previous years, figures for response are consistently higher than for provision (68.9% overall). The gap between the two has widened slightly from 10% in 1985 to 13% in 1986, and is similar for pupils of all ages, except for the sixth form, where both assessments are well above the average, though with a smaller gap between them, especially for A level students.

Table 3

ASSESSMENTS OF ALL CLASSES OBSERVED  
(\* judged satisfactory or better)

Type of school	Provision	Response
	1986 (1985)	1986 (1985)
Primary	70.4 (71.2)	81.9 (81.1)
Secondary	68.2 (68.2)	81.8 (78.5)
Special	62.9 (72.9)	73.0 (79.6)
Overall	68.9 (70.3)	81.6 (80.4)

\*Both of these terms were given a working definition: satisfactory provision was said to occur when the material being taught, and its presentation, were supported by adequate, appropriate resources, and were commensurate with the age, aptitude and ability of pupils. Pupils' response was assessed in terms of attitudes and standards of work achieved, in relation to the provision made for them and to their age, aptitude and ability.

## TEACHING STAFF AND NUMBERS OF PUPILS

14. Figure 1 in the Appendix shows, over a three year period, the numbers of teachers and pupils in primary and secondary schools and the consequent effects on the pupil:teacher ratios (ptrs). Table 4 summarises by LEA groupings (London Borough (LB), Metropolitan Districts (MD) and Shire Counties (SC)) the percentage changes in numbers and ptrs for all types of school from 1985 to 1986. These figures indicate that numbers of teachers and pupils in secondary and special schools have fallen; in primary schools they have risen, except for a slight decrease in the four-year-old population, caused by a temporary dip in the birthrate. For the country as a whole changes in ptr are generally small, but there is a wide range of values around the mean: in primary schools the range of LEAs' ptrs is from 19.0 to 25.5 and in secondary from 11.7 to 18.2.\* Nursery, primary and secondary school ptrs all show a slight decrease; in special schools they have remained constant. For all phases there are marked variations from one school to another, well above the range quoted above for LEAs as a whole. These differences are sometimes the result of deliberate policy but sometimes arise from inadequate strategies for redeploying teachers, for example in response to falling rolls and amalgamations.

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\*The figure given is the number of pupils to each teacher, according to the information supplied by LEAs through returns to district inspectors and Form 618G. An increase in the ratio results in a higher figure and a decrease yields a lower figure. Since a decrease in ptr is generally considered likely to benefit schools, it is often referred to as an improvement in the ptr. But this is by no means a universal truth, and this report therefore confines itself to the terms increase and decrease. Of course, even a change of 0.5 to the ptr has significant financial and often educational implications. For example, a secondary school with 1000 pupils on roll and a ptr of 16.5:1 has a teaching staff of 60.7 (full-time equivalent). If this ratio changes to 16.0:1, the staffing allocation becomes 62.5; thus an apparently small change of this order makes a difference of nearly 2 full-time teachers.

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Table 4

TEACHERS AND PUPILS IN SCHOOLS AND PUPIL:TEACHER RATIOS:  
 PERCENTAGE CHANGE FROM 1985 TO 1986

	NURSERY SCHOOLS			PRIMARY SCHOOLS		
	% change from 1985 to 1986			% change from 1985 to 1986		
	TEACHERS	PUPILS	PTR	TEACHERS	PUPILS	PTR
LB	- 2.1	- 0.6	- 0.06	+ 1.0	+ 2.1	+ 0.15
MD	+ 1.3	+ 1.1	- 0.10	+ 1.9	+ 0.4	- 0.33
SC	- 0.3	- 2.3	- 0.37	+ 1.2	+ 0.8	- 0.09
TOTAL	0	- 0.9	- 0.29	+ 1.4	+ 0.8	- 0.14
	SECONDARY SCHOOLS			SPECIAL SCHOOLS		
	% change from 1985 to 1986			% change from 1985 to 1986		
	TEACHERS	PUPILS	PTR	TEACHERS	PUPILS	PTR
LB	- 3.0	- 4.9	- 0.34	0	- 4.7	- 0.18
MD	- 3.2	- 5.1	- 0.30	- 1.0	- 2.5	- 0.05
SC	- 0.9	- 3.8	- 0.47	- 1.3	- 2.9	- 0.12
TOTAL	- 1.7	- 4.3	- 0.41	- 1.2	- 3.1	- 0.12

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15. The level of provision of teachers was judged to be satisfactory or better in both primary and secondary schools in 69 LEAs; the figures for 1985/86 and 1984/85 were 69 and 74 respectively. A second group of 14 LEAs (15 in 1985/86 and 12 in 1984/85) had satisfactory staffing levels in either their primary or secondary schools, but not in both; while a third group of 13 LEAs (12 in 1985/86 and 10 in 1984/85) had less than satisfactory staffing levels in both their primary and secondary schools. The position is less satisfactory in primary schools than others; here, there are still a few examples of classes with more than 35 pupils.

16. Teachers are, for the most part, engaged in tasks for which they are suitably qualified. However, LEAs' management of the deployment and redeployment of teachers is variable, sometimes because of factors outside their control. The inability to fill vacancies is one such restriction, and it has become more serious this year, as Table 5 shows.\* Vacancies are noted for senior posts in all sectors, in nursery and infant schools in some areas and, especially, for 'shortage' subjects in secondary schools. A related difficulty, especially in the south-east, is the effect of rapidly increasing housing costs, which appears to restrict the field of external candidates for posts.

UNFILLED TEACHING VACANCIES IN SECONDARY SCHOOLS  
RECORDED BY SUBJECT

<u>Table 5</u>	<u>Subject</u>	<u>Number of vacancies</u>	
		<u>1986</u>	<u>(1985)</u>
	Science	184	(129)
	Mathematics	150	(137)
	Craft, Design and Technology (CDT)	119	(95)
	English	85	(67)
	Physical Education	83	(n/a)**
	Modern Languages	81	(62)
	Business Studies	78	(37)
	Home Economics	64	(39)
	Music	48	(n/a)**
	Computing and Information Technology	39	(19)
	Geography	31	(22)
	Special Needs	26	(n/a)**
	Religious Education	25	(22)
	History	23	(27)
	Art	17	(n/a)
	Economics	9	(n/a)
	Drama	9	(n/a)
	Other	<u>50</u>	<u>(n/a)</u>
		1121	(783)

\*\*Some subjects were not recorded separately last year and therefore no figures are available for comparison.

\* These figures are derived from incomplete returns from LEAs.

17. 29 LEAs have reported the existence of policies of curriculum-led staffing, in order to try to ensure the most appropriate deployment of their teachers; there is little further movement towards such policies at present, and few of those reported are fully operative. Some authorities give additional staffing to small schools, and many secondary schools have had staffing supplements through TVEI or LAPP. Where there were marked variations in allocated staffing, these were not always attributable to clear policy criteria. The main trend in redeployment is from secondary to primary schools, in line with the numerical shifts in the school population; this is not always supported by adequate re-training. LEAs are increasingly using contracts other than permanent, full-time appointments, partly in order to create greater flexibility in deploying staff; use of temporary contracts and peripatetic teachers has increased.

#### TEACHING QUALITY

18. Figure 2 in the Appendix shows the frequency with which various resource and other factors were judged to be having a helpful or restrictive influence on the quality of work (see also paragraph 51). As in previous years, by far the most prominent of these was the quality of teaching, which was judged helpful in 68% of all classes seen, a figure very close to that for the quality of provision generally, and restrictive in 32%. There was a close relationship between the response of pupils and the quality of teaching. In over 80% of primary school lessons where pupils' response was judged satisfactory or better, the influence of the quality of teaching was helpful; conversely, in 89% of lessons where pupils' response was assessed as unsatisfactory, the quality of teaching was a restricting influence. The comparable figures for secondary schools were 79.5% and 79.1% and for special schools 86.1% and 89.1%.

19. Among the main features of successful teaching seen were:

- . the sense of purpose and clarity of objectives in the work;
- . the organisation of materials, time, classroom;

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- . teaching methodology, for example effective oral work;
- . the suitability of tasks and differentiation in the learning;
- . an emphasis on practical applications;
- . the quality of relationships.

Good work often illustrated a number of these factors operating together. Where teaching was less effective, the features to emerge most strongly were:

- . sluggish pace and poor planning;
- . low expectations and poor standards of work;
- . too much exposition and dictation;
- . inadequate control and discipline.

20. In work observed in schools, the match of teachers' qualifications and experience was judged helpful in a slightly higher proportion of lessons than in 1985. Poor match was, proportionately, noted more often in special schools. Where there was inadequate specialist knowledge, work often suffered from a lack of stimulus and inappropriately low expectations. However, in some instances, teachers' commitment to a subject, combined with suitable in-service training and support from the head of department or specialist co-ordinator, compensated for a lack of formal qualifications.

21. Effects of poor morale among teachers and of the long-running dispute over pay and conditions were less manifest in autumn 1986 than in last year's report. The legacy of prolonged upheaval was being faced in many schools, but some heads reported a marked change for the better in the schools' climate.

## IN-SERVICE EDUCATION AND TRAINING (INSET)

22. In all aspects of INSET provision, improvements in financial and other support were noted in the majority of LEAs. Overall numbers of secondments of

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teachers for one year, one term and shorter periods all increased. There was evidence of INSET policies being developed more consistently, with an emphasis on making secondments match identified LEA priorities. There were substantial increases in real terms for the authorities' own provision and marginal increases in the support available for non-LEA INSET. The number of teachers' centres remained at about the same level, but pressures on wardens, from multiple use of centres, were reported in some LEAs.

23. District inspectors' judgements on the quality and appropriateness of INSET provision showed an upward trend from the 68 LEAs assessed satisfactory or better in 1984 to 71 in 1985 and 74 in 1986. This assessment of a gradually improving service is in line with the recorded patterns of LEA policy and expenditure. There was a closer link between LEAs' provision and nationally identified priorities. The impact of TRIST encouraged greater attention to management training, school-focussed INSET, science and CDT. The effects of funds from ESGs were also beneficial, for example to rural primary schools and to mathematics and science in primary education through the work of advisory teachers. At its best, GCSE training was good. However, the complexity of the process, combined with difficulties caused by the teachers' dispute, sometimes undermined continuity and commitment. Uneven take-up and problems over securing effective cover, in order to replace teachers undergoing training, sometimes impeded the full implementation of the new syllabuses.

24. Provision for induction was slightly improved, with 80 LEAs reporting a planned programme, compared with 76 in 1985. The number of probationary teachers rose in the nursery and primary sectors and fell in the secondary sector. In all phases there were reductions in the number of probationary teachers who were on temporary contracts. In some cases, probationers received strong assistance from the advisory service, combined with good school-based support. However, there were deficiencies in the management of many LEAs' programmes, with inadequate guidance to individual schools and heads. Many LEA recognised that it was desirable to lighten probationers' timetables, but this was not consistently done.

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INSPECTORATE/ADVISORY SERVICES

25. In 1986 slight increases were recorded in the number of advisers and more substantial increases in the number of advisory teachers\*. Variations in the size and composition of teams continue to be marked, even for authorities of similar size and type. Advisory services were often strengthened, especially in relation to advisory teachers, by support from central government funding especially through TVEI, TRIST and ESG. A few LEAs reported that they were restructuring their advisory service. Where they were doing so, it was often in order to give greater emphasis to inspection and classroom evaluation.

26. The coverage, level of support and overall effectiveness of LEAs' advisory services were assessed as satisfactory or better in over half of all LEAs. The proportion so assessed was higher for the London Boroughs than for the Metropolitan Districts or Shire Counties. The major deficiencies in LEAs' advisory services were judged to stem from inadequate coverage of the curriculum and phases, with specialist gaps inevitable in some small teams. The increasing number of unfilled vacancies, especially in general secondary, special needs, general primary and mathematics, contributed to these restrictions in cover. Where the level of support to schools was less than satisfactory this was largely because of a heavy workload especially of administrative responsibilities. The effectiveness of the advisory service was closely related to the quality of its leadership, which was in some LEAs bringing improved identification of INSET needs and greater direct contact with the classroom.

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\*The term 'advisers' is used as a shorthand for 'advisers/inspectors', although it is acknowledged that the difference in terminology may relate to important differences in function. Advisory teachers are usually appointed for specific developments or subject-areas, to spend as much time as possible working closely with teachers in the classroom.

## NON-TEACHING STAFF

27. Table 6 shows fluctuating numbers in the various categories for non-teaching staff compared with 1985 figures. The number of ancillary staff decreased slightly in nursery and primary schools overall, as did numbers of qualified librarians in secondary schools and technical and laboratory assistants. Clerical staff and foreign language assistants all showed variations but no substantial change in overall numbers. Since numbers of pupils were generally lower, there is in real terms a slight improvement pro rata for the country as a whole.

28. In all these categories of non-teaching staff, provision was judged to be satisfactory in rather fewer authorities than in 1985, as Table 7 shows. Altogether, the picture is one of considerable patchiness, with London boroughs faring generally better than other parts of the country; even within the same LEA support for schools of similar type and size can be very different. In many cases inadequacies were related to the increasing and changing demands on schools. Curricular developments, new modes of assessment and styles of working raised the level of support needed from suitably qualified and deployed non-teaching staff both inside the classroom or laboratory and more generally. Teachers' perceptions about the importance of such support appeared to be changing, often because of an increased level of support and effective work done by non-teaching staff in TVEI or LAPP.

TABLE 6

## PERCENTAGE CHANGE FROM 1985 TO 1986 IN NUMBERS OF NON-TEACHING STAFF

	CLASSROOM ANCILLARIES				CLERICAL STAFF				LIBRARIANS	TECH & LAB ASSTS	FOREIGN LANGUAGE ASSTS
	NRSY	PRI	SEC	SPEC	NRSY	PRIM	SEC	SPEC			
LB	-13	- 6	+ 2	+ 8	- 8	+ 6	+14	+ 3	- 8	- 1	+ 6
MD	- 9	- 6	+30	- 5	0	- 2	+ 4	-27	-24	- 9	- 2
SC	+ 4	+ 6	+ 4	+ 3	0	+ 3	- 4	+ 1	+ 2	- 2	- 1
TOTAL	- 3	- 1	+ 8	+ 2	- 2	+ 1	+ 1	- 7	- 5	- 4	+ 0

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TABLE 7

## ASSESSMENTS OF NON-TEACHING STAFF BY TYPE OF LEA

LEA groupings		CLASSROOM ANCILLARIES					CLERICAL STAFF					LIBRARIANS	TECH/LAB ASSISTANTS	FOREIGN LANGUAGE ASSISTANTS
		Nursery	Primary	Secondary	Special	Overall	Nursery	Primary	Secondary	Special	Overall	Secondary	Secondary	Secondary
LB	Satis/better	15	13	11	17	16	8	13	17	15	15	5	15	11
	Less than satis	2	8	6	2	5	5	7	4	4	6	15	5	10
	Not known/ not applicable	4	0	4	2	0	8	1	0	2	0	1	1	0
MD	Satis/better	30	23	9	29	22	16	16	22	24	18	3	15	11
	Less than satis	4	12	7	3	11	11	19	13	9	16	31	19	19
	Not known/ not applicable	1	1	19	4	3	7	1	1	3	2	2	2	6
SC	Satis/better	27	18	8	30	21	18	18	24	26	22	6	14	12
	Less than satis	6	20	19	6	18	13	20	14	10	16	31	25	24
	Not known/ not applicable	4	1	12	3	0	6	1	1	3	1	2	0	3
TOTAL	Satis/better	72	54	28	76	59	42	47	63	66	55	14	44	34
	Less than satis	12	40	32	11	34	29	46	31	22	38	77	49	53
	Not known/ not applicable	9	2	35	9	3	21	3	2	8	3	5	3	9
No of LEAs		93	96	95	96	96	92	96	96	96	96	96	96	96

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29. In some cases, under-developed LEA policies and ineffective practices for allocating and deploying non-teaching staff, rather than simple numerical shortages, were responsible for deficiencies in the support received by schools. In the case of foreign language assistants, the increased emphasis on oral work in GCSE was leading some LEAs to reconsider their policies, with the intention of reinstating such assistants. The most severe weaknesses, which were often long-standing, were in library support. In most authorities there was an absence or shortage of qualified librarians. There were many instances where teacher-librarians had insufficient time to review stock and support curriculum development.

### 3. MATERIAL PROVISION

#### PREMISES

30. The general state of school buildings and sites shows no significant improvement, and many areas of continued deterioration. After substantial increases in real terms in 1984-85 and 1985-86 in all groupings of LEAs, the 1986-87 budgets for costs related to the maintenance, repair and decoration of premises planned for an increase in cash terms of just over 5%. However, a number of LEAs stated that a modest increase of this order was inadequate to arrest the worsening state of some of their buildings and to keep all at a reasonable standard of repair and decoration. Ageing accommodation inevitably brings with it a gradual build-up of maintenance difficulties; unexpected crises can add considerably to budget estimates. One shire county which expressed serious concern about the worsening state of its school buildings allocated an additional £1.5 million for repairs and decoration. Despite the considerable efforts being made to protect buildings, arson and vandalism continue to grow as problems facing the majority of LEAs, with an increase in the overall expenditure recorded from £15 million to over £18 million. The proportion of LEAs where asbestos continues to cause difficulties has decreased, but where the problem exists it is not always susceptible to swift or easy solutions, and one LEA quoted the need to spend at least £250,000 in the current year.

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31. Table 8 reveals that, with regard to the state of repair, decoration, furniture and maintenance of schools, many LEAs have not been able to reverse the unsatisfactory position of previous years; problems are in general judged to be most severe in metropolitan districts. There were many problems of old, damaged and sometimes inappropriate furniture, which LEAs were unable to replace. Maintenance problems of various kinds were reported, with rewiring and roofing repairs the most pressing needs.

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Table 8

ASSESSMENTS OF ACCOMMODATION BY TYPE OF LEA

LEA groupings		Repair	Decoration	Furniture	Maintenance
LB	Satis/better	10	11	13	11
	Less than satis	11	10	8	10
MD	Satis/better	8	12	15	7
	Less than satis	28	24	21	29
SC	Satis/better	16	13	20	8
	Less than satis	23	26	19	31
TOTAL		'84 '85 '86	'84 '85 '86	'84 '85 '86	'84 '85 '86
	Satis/better	39 34 34	31 32 36	55 51 48	31 24 26
	Less than satis	57 62 62	65 64 60	41 45 48	65 72 70

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32. The effects of accommodation and furniture on the quality of work seen in classes were also assessed (see Figure 2). Most accommodation was suitable and reasonably used, and in some cases good accommodation was further enhanced or bleak surroundings enlivened by displays of pupils' work or of materials that supported the curriculum and invited a response from pupils. However, in a fifth of all lessons seen, both in primary and secondary schools, accommodation was judged to be restrictive. Some buildings were in a poor state, and this was exacerbated by vandalism, usually perpetrated by intruders. In others, difficulties were created by the inadequate adaptation of premises to the needs of particular groups of children, such as children in newly provided nursery classes, or by the designation of an inappropriate room for specialist use. Shortages of space and inappropriate furnishings sometimes restricted the quality of work and inhibited curricular developments.

## FINANCIAL ALLOCATIONS TO SCHOOLS

33. Annual levels of capitation for 1986-87 increased in real terms in most LEAs, in some cases by figures well above the rate of inflation; some authorities reported that these rises were in recognition of higher costs, particularly of text books, and also in response to mounting evidence of shortcomings in schools' stocks, especially with respect to new developments in the curriculum. Analysis of a group of LEAs where capitation allowances covered the same areas of expenditure revealed marked variations. For pupils of nursery school age, the sums ranged from £12 to £27; for those aged 16+, the spread was from £34 to £58. At least 21 LEAs now have schemes - mostly pilots, but some established - for delegating financial control, in various degrees, to all or some of their schools. Since these programmes enable heads of schools to transfer ('vire') sums of money within the general budget, for example to boost spending on books and equipment, the per capita allowance can become a notional entity which can be augmented or depleted according to the priorities determined within the school. The degree of flexibility and autonomy which such schemes give to schools has attracted considerable interest\*, although it is too early to assess the effects on the quality of education in the schools.

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\* After the survey was carried out, the announcement of government plans for a general extension of this principle brought the issue into far greater prominence.

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## BOOKS, EQUIPMENT AND MATERIALS

34. Table 9 indicates that provision of books, equipment and materials was assessed as satisfactory in the majority of LEAs, with the position generally better in the London area than elsewhere, but a substantial number have deficiencies especially in library stock and in text books for pupils in the 11-16 age-range. Secondary school libraries are often inadequately resourced and poorly managed. Even where they are well-stocked, they are often seriously under-used. The worsening assessments highlight the often critical state of this aspect of schools' provision. Most LEAs are judged to have satisfactory levels of provision of stationery and consumable materials; provision of equipment is assessed to have changed very little overall from 1985, with shortcomings noted especially for pupils aged from 11 to 16. Overall, the provision of learning resources is regarded as satisfactory or better in 60 LEAs.

35. Deficiencies in the use of resources in schools were judged most often to be the result of inadequate perceptions of pupils' needs and poor management and deployment. In only an eighth of all visits were capitation levels given as the reason for shortcomings noted. Issues related to the management and deployment of resources are considered in Section 5 (paragraphs 52-54) below.

36. The influence of books was assessed as helpful in a slightly lower proportion of classes than in 1985. Shortages in school libraries and, less often, in classrooms were noted; the quality of books was more often restrictive than their quantity. There were twice as many references to an inadequate supply of books in secondary schools as in primary, whereas the incidence of books in unsatisfactory condition was greater in primary schools. The introduction of GCSE had plainly beneficial results on the provision within some secondary school departments. In much work seen in secondary schools, however, books were simply not in evidence when their use would clearly have been helpful and resources were adequate. For example, one HMI followed a fourth year pupil's programme throughout the day. "Although the balance of activities between writing, oral work, listening and practical activities was good, there was a major gap in reading. The only reading activity carried out by the pupils during the day was brief reference to one page of a textbook in history".

ASSESSMENTS OF LEARNING RESOURCES FOR SCHOOLS BY TYPE OF LEA

No of LEAs satis/better		LIBRARY				STATIONERY (CONSUMABLES)				EQUIPMENT				OVERALL LEARNING RESOURCES (1986 only)	
		Primary	Sec (11-16)	Sec (16-19)	Special	Primary	Sec (11-16)	Sec (16-19)	Special	Primary	Sec (11-16)	Sec (16-19)	Special		
(LEA Groupings)															
LB	1986	17	10	11	14	20	20	17	17	20	18	16	17	Satis/better	19
	1985	19	12	12	12	21	19	20	N/A	18	16	18	15	Less than satis	2
MD	1986	19	10	16	17	33	30	29	28	28	20	25	28	Satis/better	20
	1985	21	19	14	20	31	28	28	N/A	26	21	24	27	Less than satis	16
SC	1986	21	14	19	29	38	33	37	36	33	23	31	31	Satis/better	23
	1985	23	16	23	28	38	33	37	N/A	34	25	31	30	Less than satis	16
TOTAL	1986	56	33	45	59	89	81	81	79	80	61	71	75	Satis/better	62
	1985	63	47	49	60	90	80	85	79	78	62	73	72	Less than satis	34
No of replies	1986	94	90	89	79	96	94	90	84	94	92	89	84		96

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37. The influence of materials and equipment is similar to that recorded last year. Primary schools make fuller use of them than secondary; some equipment is not fully utilised, some is outdated. Where school-produced materials were judged to be unhelpful, this was often because the quality of reproduction was poor and the content unsuitable. There were examples of appropriate equipment being used well and contributing to good standards of work, although in other cases the lack of such equipment restricted the quality of work, for example by preventing a practical approach. In special schools, there were good examples of a variety of resources enhancing the quality of work, as in one school which made excellent use of the school's site, the locality, the museum service and field study centres of all kinds.

38. Computers were in use in a very small proportion of classes, more in primary than in secondary. There were some examples of effective work, especially in lessons with pupils of primary age. Generally, however, the place accorded to the use of computers in the classroom remains disappointingly limited.

#### PUBLIC EXAMINATIONS

39. Most LEAs have not changed their policies in the last year over the support they give to schools for public examination entries. The large majority, while placing no formal limit on the number of subject-entries per candidate for which they will pay the fee, give no support to double entry at General Certificate of Education (GCE) Ordinary (O) level and the Certificate of Secondary Education (CSE) in the same subject: half of all LEAs expect parents to pay for the second entry; a further 29 oppose such double entry altogether - these figures have increased since 1985. In the majority of authorities (55) there is a reported increase in the use of examinations other than GCE or CSE for 14-16 year olds, particularly those often designated as 'pre-vocational'; it is too early to assess whether this trend will continue with the advent of the GCSE.

40. LEAs reported on any financial provision they were making for the introduction of the GCSE in addition to the expenditure incurred as part of the ESG programme for the new examination. The range, which extends from no

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additional support to an estimated £160+ for each fourth year pupil, is striking. On average, non-metropolitan counties are supplementing funds by considerably less than London Boroughs or Metropolitan Districts. The LEAs' funding for GCSE was judged reasonably adequate and appropriate in 35 authorities and inadequate in 26. In 35 authorities it was thought premature to comment, because of the impossibility of predicting the necessary costs at this stage. For this reason, some LEAs had withheld funds at the start of the financial year and were disbursing them according to need after the start of the academic year 1986-87.

## PARENTAL CONTRIBUTIONS

41. Financial contributions by parents were reported to have declined slightly this year, in primary and secondary schools, both as a proportion of capitation allowances and in the varieties and instances of financial assistance recorded; however, this support remains substantial. Table 10 details the extent of this support in relation to capitation, by kind of school. In 38% of primary schools, for example, parental contributions increased the capitation allowance by more than 30% and in over 5% of such schools parental support more than doubled the original allocation. In one combined first and middle school with 528 pupils, the capitation allowance of £9,630 was augmented by reported parental contributions of £10,000; and in one 11-16 comprehensive school of 330 pupils, parents contributed £20,000, compared with capitation of £19,000.

Table 10 PARENTAL FUNDS AS % OF CAPITATION RECEIVED BY SCHOOLS

(For primary and secondary schools, 1985 % in brackets)					
%	<10%	11 - 20%	21 - 30%	>30%	Total
Type of school					
Primary	28 (15)	19 (22)	15 (20)	38 (44)	100
Secondary	77 (66)	15 (25)	4 (5)	4 (5)	100
Special	47	-	5	48	100
Total number of schools (1986)	764	234	138	308	1444



42. Parents most frequently gave help in providing school equipment, educational visits and computers; in special schools library books were the most common object of parental support. Table 11 lists the number of recorded instances for various kinds of help; numbers have in general declined slightly despite the slightly larger total of visits made.

Table 11

USES OF PARENTAL SUPPORT

Category of support	Number of instances in schools visited	
	1986	(1985)
providing equipment, including		
reprographics and audio visual aids	1385	(1425)
educational visits	658	(764)
computers	631	(709)
library/reference books	490	(520)
PE/games/swimming equipment/maintenance	445	(510)
improving premises	426	(471)
musical instruments	350	(384)
consumables/materials	263	(265)
textbooks	240	(247)
minibus	297	(334)
toys	216	(243)

43. The amount of support by parents in kind and labour was also reported to have decreased slightly. Compared with 1985 there were rather more schools where no parental support in kind was provided, although the percentage of primary schools with no such assistance (3%) is still very low. The most frequent forms of help are with transporting pupils on visits and with reading and other forms of instruction and supervision; the percentages of schools recording support of various kinds are shown in Table 12.

Table 12

	OTHER PARENTAL HELP			[% of visits in each type of school]
	PRIMARY	SECONDARY	SPECIAL	
NIL	4%	22%	42%	
SLIGHT	30%	40%	22%	
MODERATE	40%	16%	25%	
SUBSTANTIAL	23%	9%	11%	
NOT KNOWN	3%	13%	-	

4. CURRICULAR PROVISION

44. There have been few changes in LEAs' overall policies for the school curriculum. As in 1985, about a third of all authorities stated that they had an agreed curriculum for their schools, generally embracing both primary and secondary schools. Authorities with such policies mostly report that they appoint teachers with the necessary expertise for the curriculum agreed.

45. There are more reports this year of schools in which subjects have been removed from the curriculum, or which have had their availability much reduced, in the academic year 1986-87, specifically as a result of reductions in their allocations of teachers or non-teaching staff. There were 223 examples quoted of effects of this kind (191 in 1985); they occurred in 34 primary, 167 secondary and 22 special schools. Subjects principally affected in both primary and secondary schools were music, languages and craft, design and technology. Such reductions affected less able pupils more often than the able and average pupils; the age-groups most frequently affected were years 4 and 5 in secondary schools. Music and languages (modern and classical) were also the subjects most frequently maintained by ad hoc arrangements (for example, during the lunch hour or after school). The reason usually given for such reduced provision was a fall in the total staffing establishment of a school, especially because of declining school rolls. Part-time staff were particularly vulnerable, as was

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curricular provision which depended entirely on them. Where there was a single teacher of the subject, as was sometimes the case with Latin or drama, for example, the non-replacement of a teacher could lead to the disappearance of the subject from the school's curriculum. In primary schools (including middle schools deemed primary), provision which depended on a peripatetic service was reduced or cut out in several instances; remedial support, music and French were areas affected by such reductions. In many cases, there was inadequate management of these changes by LEAs, even to the extent of failing to monitor the effects of such staffing reductions on the curriculum on offer.

46. Developments in the curriculum were influenced strongly by the degree of LEA and other external support available, whether through resources, advisory back-up or curricular policy. There were cases, for example, where more systematic scientific work in primary schools was attributable to the work of advisory teachers and ESG funding. In some schools, curricular developments concerned with strengthening a multi-cultural dimension to the work were similarly receiving advisory support. The influence of TVEI resources on the curriculum continues to be a strong factor, but selectively so.

### PROVISION FOR PUPILS WITH SPECIAL EDUCATIONAL NEEDS

47. LEA's returns (incomplete) indicate a slight increase in the number of designated special units or classes attached to ordinary\* primary and secondary schools, and a similar rise in the number of pupils in these units. The number of pupils formally assessed as having special educational needs\*\* decreased in some authorities, but increased in others, so that overall numbers of statements were broadly similar in 1985 and 1986. In a substantial minority of LEAs the arrangements made in ordinary schools for pupils with special educational needs were judged to be, as yet, insufficiently developed.

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\*The term 'ordinary', is used to refer to county and voluntary schools which are not designated as special schools.

\*\*Formal assessment is either by the former Special Education procedures or in the terms of the Statement required by the 1981 Education Act.

PROVISION FOR PUPILS UNDER FIVE

48. Provision made for pupils under 5 is judged to be better in nursery classes than when such pupils are admitted to infant classes. In the latter, suitable curricula, teaching methods and materials are not always provided for the youngest pupils, but some improvement has been noted, thanks in part to specifically directed resources and positive interventions by LEAs and their advisory services. LEA policy for the under 5s is not always fully articulated, but some authorities are seeking to ease the transition to full-time schooling by offering one term or, exceptionally, two terms of part-time attendance.

PROVISION FOR SIXTEEN TO NINETEEN YEAR OLDS

49. Provision in the schools sector for the 16-19 group is judged broadly similar to 1985. Provision for two-year sixth formers was mostly assessed as better than for their one-year counterparts. CPVE and TVEI are judged to have had generally beneficial effects on those sixth forms where they have been introduced. Uncertainty about the future shape of 16-19 education was reported to be widespread, with many LEAs preoccupied by the prospect of further reorganisation consequent on falling numbers. Small sixth forms were frequently a serious concern, and the small size of teaching groups within them was, on occasion, thought to be depressing the quality of students' educational experience. There were references to a lack of clear policies for 16-19, especially about the curriculum and forms of organisation. The emergence of forms of assessment other than GCE and CSE, for example, connected with pre-vocational courses, was creating new demands for the training and support of teachers in many authorities. These issues were sometimes thrown into relief, and the difficulties exacerbated, by the lack of a co-ordinated advisory service to cater for 16-19 education.

5. OBSERVED PROVISION AND RESPONSE

50. Section 1 (see above) summarised the overall judgement of the quality of work seen in schools, with separate assessments for provision and response. In primary education, work in nursery classes was generally assessed as the most

satisfactory. In secondary schools, whereas in 1985 14 and 15 year olds were judged to have less satisfactory provision than 11 to 13 year olds, this year 12 year olds were judged to be faring least well. Assessments for 14 year olds were apparently being influenced positively by the introduction of GCSE: in descriptions of fourth year classes observed, more beneficial than adverse effects of teaching towards the new syllabuses were recorded. In special schools, the small sample showed generally lower proportions of work judged satisfactory, with particularly low figures for secondary aged pupils and for pupils with emotional or behavioural disorders. Analysis of judgements by subject shows figures for 1985 and 1986 which are generally very close to each other. In primary mathematics, the proportion of work assessed as satisfactory or better has increased by 7% - a large increase, given the generally similar overall figures; in some cases, improvement was attributable to the influence of ESG funding and the work of advisory teachers. As in 1985, the assessments of the work of able pupils are higher both for provision and response than those for average pupils, and those for less able pupils and for the least able or remedial pupils less satisfactory again. In primary schools, where mixed ability teaching is the norm, the figures for this organisation correspond closely to the overall averages; where ability groupings were used, the assessments, on small samples of work, showed considerable fluctuations.

#### THE INFLUENCE OF RESOURCES AND OTHER FACTORS ON THE QUALITY OF WORK

51. The analysis of the effect on quality of various resources and other factors (Figure 2) has been considered briefly in earlier sections. Some factors, such as accommodation or the quality of teaching, were judged to be affecting almost all classes seen helpfully or adversely; others, such as the use of computers, were present or influential in a far smaller proportion. The material resources which were most often restricting the quality of work were the quality of accommodation (one fifth of all lessons, a similar proportion to 1985) and, of the other factors, the quality of teaching (32%, compared with 31% in 1985) was most common. In the small sample of special schools, factors relating to the composition of the teaching group (mixed age classes and the ability range of the class especially) were frequently judged unhelpful. The two items which related most closely to the general judgements about the quality of work were the quality of teaching (assessed very similarly to the general

provision made; see page 4 above) and pupils' behaviour, which was hardly ever judged to be unhelpful when the quality of pupils' response was assessed as satisfactory. In 93% of all lessons in primary schools behaviour was helpful and in 6% it was restrictive. For secondary schools, the proportions were 89% and 8% respectively, with a decrease from 9% in the proportion of lessons with unhelpful behaviour. In the small group of special schools this proportion increased from 14% to 20.5% of lessons seen. Overall, the cases where poor behaviour was seen to be disrupting the quality of work were relatively few.

#### MANAGEMENT AND DEPLOYMENT OF RESOURCES

52. Where the work in schools was judged to have deficiencies, indications were offered of the changes which would be needed to affect significant improvement. These assessments were of two kinds: first, those which were internal to the school; and secondly, those which required additional (or better) resources from outside the school. In the former category, as Figure 3 (see Appendix) shows, the changes most frequently identified as being needed were improved styles of teaching and better perception of pupils' educational needs. Higher expectations of pupils and more effective leadership, especially by heads of department or subject co-ordinators, were also frequently judged desirable. There is a marked difference from last year in the assessments for teachers' morale: even if morale has not actually improved, at least there has been less visible impact of low morale, with the great reduction in autumn 1986 in the direct effects of the teachers' dispute over pay and conditions. The proportion of schools where greater take-up of INSET opportunities is regarded as desirable has also risen. In the case of secondary schools, this is partly because provision of GCSE INSET has often not had maximum take-up, because of the teachers' dispute.

53. A frequent need was for more effective leadership, by heads and by heads of department/subject co-ordinators. There were instances of insufficiently firm co-ordination of the curriculum, which sometimes led to a lack of direction and to fragmentation in the provision. Inadequate management of resources by heads surfaced especially in the lack of clear criteria and consultation procedures for distributing capitation allowances. In the case of heads of department or subject co-ordinators, weaknesses related generally to syllabus planning and

lack of foresight in budgeting for required resources, especially where a major change in the curriculum was to take place. Poor perception of pupils' needs was revealed in work which was pitched wrongly for pupils and which failed to exploit their strengths or deal with their weaknesses constructively.

54. Changes internal to the school were judged necessary more frequently than were resources from outside the school. In the latter category (see Figure 4 in the Appendix), a distinction was drawn between the quantity and the quality of the resources needed. Books, materials and equipment were mentioned in a substantial minority of visits, but more often than not it was the quality, not the quantity, of these resources which was judged inadequate. The need for more teachers was identified most frequently in special schools, while in primary and secondary schools the need for improved quality was greater. More time for planning and better advisory support were also required by all types of school. The proportion of the small sample of special schools visited where such changes were judged necessary was higher than in other categories of school. This reflects the generally lower assessments in special schools this year.

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## II. FURTHER AND HIGHER EDUCATION (FHE); YOUTH AND COMMUNITY, CONTINUING EDUCATION AND TEACHER TRAINING

### 1. OVERALL ASSESSMENTS

55. Table 13 summarises the pattern of visits made in autumn 1986 to see work in institutions of various kinds. The number of visits shows an overall increase on the previous year. Figures for visits to see work in Advanced Further Education (AFE) were broadly similar to those in the previous year. However, there were over 40% more visits to institutions concentrating on Non-Advanced Further Education (NAFE).

Table 13

#### NUMBER OF VISITS IN FHE ON WHICH RETURNS WERE MADE

<u>(FHE returns)</u>	1986	(1985)	
Polytechnics	61	(76)	
Other AFE (more than 80%)	16	(14)	
Mixed AFE and NAFE	195	(193)	
NAFE	273	(192)	
Others	5	(6)	
<u>TOTAL</u>	550	(481)	
<u>(Specialist returns)</u>			
Youth and Community	153	(110)	
Adult and Continuing Education	56	(56)	
Teacher Training (non-university)	61	(50)	

56. In AFE, as Table 14 shows, about nine-tenths of classes seen were judged satisfactory or better for the quality of provision\* and slightly more for the

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\*Throughout this section the terms provision and response are used as in the schools' assessments. (see definitions given in the footnote on page 10.)



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quality of students' response. These are higher proportions, by some 5%, than were recorded in 1985. In NAFE, the figures are almost identical to those for 1985. As in the school visits, response was judged satisfactory in a higher proportion than provision, though not to so marked an extent.

Table 14

## ASSESSMENTS OF ALL SESSIONS OBSERVED

(% judged satisfactory   or better)	Provision		Response	
	1986	(1985)	(1985)	
AFE	89.5	(84.3)	91.2	(86.0)
NAFE	80.4	(80.9)	87.1	(87.2)

57. In four-fifths of the sessions seen in continuing education, the quality of work was judged satisfactory or better, the same proportion as last year. In youth and community, the quality of provision was judged satisfactory in just over half the visits made, and in fewer than half of those where the main focus was recreational activities. The overall standard of work in teacher education was judged satisfactory or better in almost 80% of visits where an assessment was made. Nearly nine-tenths of classes seen were judged satisfactory or better for provision and 91% were similarly assessed for the response of students.

## 2. ENROLMENTS OF STUDENTS AND COURSE PROVISION

58. Enrolments in AFE are generally buoyant in all kinds of course and for all modes of attendance. Some of the largest reported increases are for day-release attendance. In NAFE too, the picture is one of generally increasing enrolments. GCE courses remain well supported, especially for part-time attendance. In ~~many~~ areas of vocational NAFE, such as catering, hairdressing, care courses, secretarial studies and business studies, demand outstrips provision, with the result that well-qualified applicants for places have to be turned down. The substantial involvement of the MSC in sponsoring students on full-cost, full-

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time courses and also part-time trainees on Youth Training Schemes has contributed significantly to this general pattern, to which engineering is the one major exception.

59. There is an upward trend in the numbers of participants in youth and community provision, with a rise in participation by under 14s but a decline in the 14+ age-range, especially in traditional club membership; an increasing emphasis is placed on provision for girls, ethnic minority groups and the young unemployed. Enrolments in adult and continuing education are also reported to be generally higher, with the main growth in part-time provision, especially for Professional, Industrial and Commercial Up-dating (PICKUP) and access courses and in open learning provision; expanding areas include nursing and social care courses, tourism and catering, robotics and information technology. TVEI has made comparatively little impact on NAFE. CPVE has made a promising start, with over 9,000 students attending joint schools/FE schemes and 6,000 on free-standing FE courses.

60. The range of courses was judged to be satisfactory or better for NAFE in 95 of the 96 LEAs and in AFE for 67 of 76 LEAs assessed (although, in the case of AFE, provision is planned nationally and funded by LEAs through the AFE pool). In rather fewer LEAs, the provision was judged to meet the demands of different student groups to a satisfactory extent (AFE 62 out of 74 LEAs; NAFE 79 out of 95). Provision was assessed as satisfactory or better for youth and community in 57 of 81 LEAs and for adult and continuing education in 71 out of 91. Response to the advent of Work-Related NAFE (WRNAFE) funding from MSC was judged satisfactory or better in 71 of 85 LEAs. In a number of these LEAs the process of constructing a development plan was judged to be having a positive impact on WRNAFE through more effective targeting of resources. Provision for students with special educational needs continues to be variable in character and quality. Overall it is assessed as satisfactory or better in 71 of 95 LEAs. Weaknesses include lack of clear policy, inadequate resources and poor provision for the physically handicapped. The general picture is one of continuing change in circumstances which present considerable challenge. In many LEAs 16-19 reorganisation is at various stages of planning or implementation; and the demands of responding to a range of new initiatives sometimes impose a heavy load on staff in colleges.

61. Students' access to courses was judged satisfactory in a higher proportion of visits than in 1985. The most frequent reasons for inadequate access were organisational difficulties, undeveloped policy or lack of resources. In a small minority of visits the range and variety of vocational courses were not thought to relate sufficiently to employment opportunities.

### 3. STAFFING: PROVISION AND SUPPORT

#### TEACHING STAFF

62. Teaching staff establishments in AFE were judged satisfactory or better in all but two LEAs. Staff:student ratios continue to increase\*. There is generally a good match between lecturers' qualifications and the courses offered, but shortages of suitable applicants are reported for posts in computing, electronics, information technology and some aspects of business studies.

63. In NAFE, all but eight LEAs were judged to have satisfactory or better provision of teaching staff. Where there was unsatisfactory provision, this was associated with such factors as over-dependence on part-time and short contract staff and the need for updating in new technology and modern industrial or commercial practice.

64. The provision of teaching staff for adult and continuing education was judged satisfactory or better in all but 11 LEAs, and in many LEAs staff were well managed and supported by training and staff development. In a few authorities lack of such training and over-reliance on part-time staff contributed to unsatisfactory provision.

65. In youth and community, there was a small increase in staff, but the number of unfilled vacancies remains high. Staff are generally judged to be of good quality but there are some problems caused by inadequate leadership.

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\* See the note on p.11 for the use of terms.

66. In both AFE and NAFE levels of teaching staff were judged adequate for the courses provided in over four-fifths of the visits. In a similar proportion of visits, lecturers' qualifications and experience were assessed to be adequate.

ADVISERS/INSPECTORS

67. The amount of advisory support dedicated to FHE shows a small increase, but 35 authorities were reported to have no FHE advisers and similar numbers had no careers advisers or advisory teachers for this sector. There are advisers with dual roles to cover both schools and FHE exist in several LEAs, but these responsibilities are not always judged to be carried out effectively. In a small minority of LEAs, it was judged that principals of colleges were well able to provide the necessary support to staff. The advent of WRNAFE planning and the GRIST scheme have led some authorities to make secondments of staff from colleges to the LEA. GCSE and 16-19 development proposals have increased further the need in FHE for professional advice, and at least six LEAs are reported to be planning to extend their advisory service into this sector. Inspection and classroom monitoring of FHE classes are carried out systematically by only a few LEAs.

IN-SERVICE TRAINING AND INDUCTION (STAFF DEVELOPMENT)

68. LEA expenditure for INSET and induction was reported to have increased substantially from 1985 figures, and numbers of secondments of various kinds had risen. In 74 of 95 LEAs staff development arrangements were judged to be satisfactory. Positive features noted included effective planning, an increased emphasis on training in information technology and more use of in-house training. Problems identified included serious difficulty in replacing teachers on secondment or short periods of INSET, poor co-ordination and monitoring of work and inadequate funding. Support for GCSE training has so far been generally at a low level, partly because the introduction of the courses will not for the most part begin until 1987-88. In a third of all visits made, there were deficiencies related to the provision of INSET.

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## NON-TEACHING STAFF

69. From the (incomplete) returns available from LEAs, it appears that there was a small increase in administrative and clerical staff in AFE, but decreases in library and technical staff. Table 15 summarises the available data. Overall provision of support staff was judged to be satisfactory in nearly 90% of LEAs. In NAFE, there has been an overall increase in support staff but HMI judged the level of support to be less than satisfactory in 37 LEAs. Difficulties have been encountered in recruiting technicians in the new technologies and the distribution of non-teaching staff did not always reflect the needs of the various disciplines. Ancillary support was often lacking in youth and community work. In nearly a quarter of visits, the level of non-teaching staff was judged inadequate, almost all occurrences being in NAFE.

Table 15

### CHANGES IN NUMBERS OF NON-TEACHING STAFF IN FHE

			<u>Percentage change</u>
			<u>1985 - 1986</u>
Administrative and clerical staff	AFE :		+ 4%
	NAFE :		+ 2%
	Y&C :		+ 8%
Library staff	AFE :		- 2%
	NAFE :		+ 5%
Lab. and workshop technicians	AFE :		- 2%
	NAFE :		+ 2%
Other non-teaching staff	AFE + NAFE :		+ 1%
	Y&C :		+17%

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4. MATERIAL PROVISION

ACCOMMODATION AND PREMISES

70. Overall, budgets for the repair and decoration of premises for 1986-87 showed an increase of 7% in cash terms, for the LEAs which submitted returns, from the actual expenditure in 1985-86. Programmes for repair and maintenance are of variable frequency, and backlogs are reported in some authorities. HMI judged current maintenance programmes satisfactory or better in 57 LEAs, an increase from 1985. The current state of repair and decoration was judged satisfactory or better in 29 of 42 LEAs for AFE and 59 out of 96 LEAs for NAFE. Major problems reported included maintaining old, unsuitable buildings, shortages of accommodation, particularly in specialist areas such as computing, and continued use of temporary accommodation. In youth and community, more than half the LEAs on which an assessment was offered were judged to have less than satisfactory accommodation and in continuing education 30 LEAs were so assessed. The quality of accommodation was assessed as insufficient to sustain and develop courses in over two-fifths of all visits, a third of AFE visits and 44% of NAFE; these figures suggest a deterioration from 1985.

BOOKS, EQUIPMENT AND MATERIALS

71. The planned expenditure by LEAs of 1986-87 on books, equipment and materials showed little overall change, though there were marked individual variations. Of the 44 LEAs with AFE returns, provision of equipment was judged satisfactory or better in 70%, that of materials in 93%, and that of libraries in 84%.

72. In NAFE the corresponding figures were, from 94 LEAs: 69% satisfactory or better for equipment, 86% for materials and 70% for libraries. A higher proportion of LEAs than in 1985 were judged less than satisfactory in their library provision. For materials and equipment the provision is assessed as similar to 1985. Inadequate funding for the replacement of capital equipment and the purchase of new high technology equipment gave cause for concern.

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73. In youth and community, equipment was judged to be satisfactory or better in 66% and materials in 67% of the LEAs for which returns were available. Both in adult and continuing education in and youth and community provision, grant aid to voluntary organisations providing educational courses has increased substantially.

74. In work observed, levels of books and equipment were judged to have remained fairly constant, with equipment thought to be inadequate in a quarter of all visits.

OVERALL ASSESSMENTS OF RESOURCES

75. In four-fifths of all visits the overall level and quality of provision of resources were judged satisfactory or better. The percentage judged less than satisfactory, however, has risen from 12% in 1984 to 15% in 1985 and 19% in 1986. This increase is accounted for entirely by NAFE.

DEPLOYMENT AND MANAGEMENT OF RESOURCES

76. Both teaching and non-teaching staff were judged to be deployed effectively in most visits, with a rather higher proportion of unsatisfactory deployment recorded in NAFE than in AFE. There has been an improvement in the effective use of resources particularly in AFE. In NAFE, and occasionally in AFE, there were instances where resources and equipment were not easily able to be used when needed.

77. In about a third of visits, students were required to provide some materials and equipment for their courses. Colleges and departments received financial support from a variety of other sources, particularly YTS, which provided funds in three-fifths of all cases; the amount of assistance from other sources, especially commerce and industry, government agencies and research councils, showed increases over the previous year. WRNAFE was judged to have had a discernible influence on the planning of provision, particularly on the range of courses, and the funding was in some cases thought to have supported curriculum development helpfully.

5. OBSERVED PROVISION AND RESPONSE

a FURTHER AND HIGHER EDUCATION (FHE)

78. Table 13 above shows the pattern of visits to institutions of various kinds. 550 returns were submitted by HMI on visits made in the autumn term of 1986. From these visits, assessments were made on 2236 classes, 278 in AFE and 1958 in NAFE. Most of these visits were specialist, but 94 (17%) were general, a higher proportion than in 1985 (11%). Compared with 1985, there was a far higher number of visits to inspect industrial sciences, and pre-vocational education emerged for the first time as a significant category.

79. Overall assessments for provision and response are given in Section 1 above. Where provision was assessed as satisfactory, the match of lecturers' experience and qualifications was almost always helpful to the work undertaken, the relevance of the activity, good organisation of class time, and the motivation of students. The factors which were judged most commonly to be associated with work of poorer quality were poor organisation of class time, inappropriate accommodation, and inadequate books and equipment. (Figure 5 in the Appendix shows, for AFE and NAFE, the relative influence of various resources and other factors in relation to all classes seen). Visits confirmed that good provision usually exhibits a variety of teaching skills and styles, drawing on the expertise and enthusiasm of lecturers, active participation and interest on the part of students, and effective use of resources and teaching aids. Where work was of less satisfactory quality, such skills were notably less marked, with activities offering students less challenge and few opportunities for their involvement and often poorly supported by the accommodation and teaching resources.

b ADULT AND CONTINUING EDUCATION

80. 56 visits were made to institutions in order to see work in adult and continuing education, the same number as last year. 246 sessions were seen; the visits were in 30 LEAs. 36% of the visits were to free-standing, non-



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residential Adult and Continuing Education institutions; 11 were to provision located in FHE institutions; and the majority of other visits were to community schools and colleges and to extra-mural departments of universities. The quality of work was satisfactory in four-fifths of the sessions seen.

81. Of the resource factors assessed, accommodation was judged to be the one most frequently restricting the quality of work, in a quarter of all visits. Amongst other factors, the range of experience and ability within the student group was most frequently identified. The factors most frequently judged to be helpful to the quality of work were the match of lecturers' expertise and experience to the work seen; the relevance of the activities; and the involvement and motivation of students. Arrangements for providing tutors were regarded as satisfactory in four-fifths of visits and the match between tutors' capabilities and the work to be carried out was judged adequate in 87% of visits. Arrangements for supervision, including monitoring, guidance and training, were judged adequate in fewer than half of the assessments made. Difficulties over non-teaching staff, including organising staff, were reported in over a third of visits. In over four-fifths of the visits the level and quality of provision of staff were judged to be satisfactory or better overall. The resource factor which was most frequently unsatisfactory was accommodation. The deployment and management of resources were assessed as satisfactory in three-quarters of visits. Changes were thought to be needed in order to improve the quality and range of courses in a substantial minority of visits. Desirable improvements included: better day time provision; concessions for specific groups; and appropriate INSET. Assistance to institutions, responsible bodies and projects was received from a number of schemes and agencies. Where such assistance was forthcoming, the benefits extended beyond those directly involved. Where adults were participating in AFE and NAFE classes, difficulties were most commonly reported in classes which were mixed, especially in relation to books and library provision, and in the ability range and composition of the group. Motivation of students was particularly high in adult classes.

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c YOUTH AND COMMUNITY

82. Returns were made on 153 visits, in 20 LEAs. The majority were concentrated in a small number of local authorities which received team visits during programmed inspections. For this reason, it is not possible to make generalisations on a sample with any claim to be nationally representative.

83. The quality of provision was judged satisfactory in just over half the visits made, and in fewer than half of those where the main focus was recreational activities. Numbers of staff are in most cases judged adequate, but the quality of staff planning which is required to implement a successful programme is less frequently present. Effective social education was seen in a variety of contexts; factors contributing to successful work were the quality of staff (the most important factor), and careful assessment of needs, together with a programme which responded to these, which had planned progression and which was subject to clear evaluation. Much provision which lacked these qualities also suffered from accommodation whose quality and design were far below acceptable standards; inadequate leadership was even more frequently the cause of deficiencies. In many cases there was a lack of policies for spreading good practice. Funding patterns were very diverse, with LEA and voluntary funding frequently supported by finance from central government agencies.

d TEACHER EDUCATION

84. Sixty one visits were made to 30 institutions involved in teacher education, which included 10 polytechnics, 13 colleges of higher education (including monotechnics) and seven other institutions, such as FE colleges offering the teachers' certificate for FE teachers. 206 sessions were observed. Of these, about three-quarters were concerned with BEd courses, just over 10% with PGCE, and the remainder with in-service and FE Teachers' Certificate courses. The small number and the nature of these visits do not permit nationally valid generalisations.

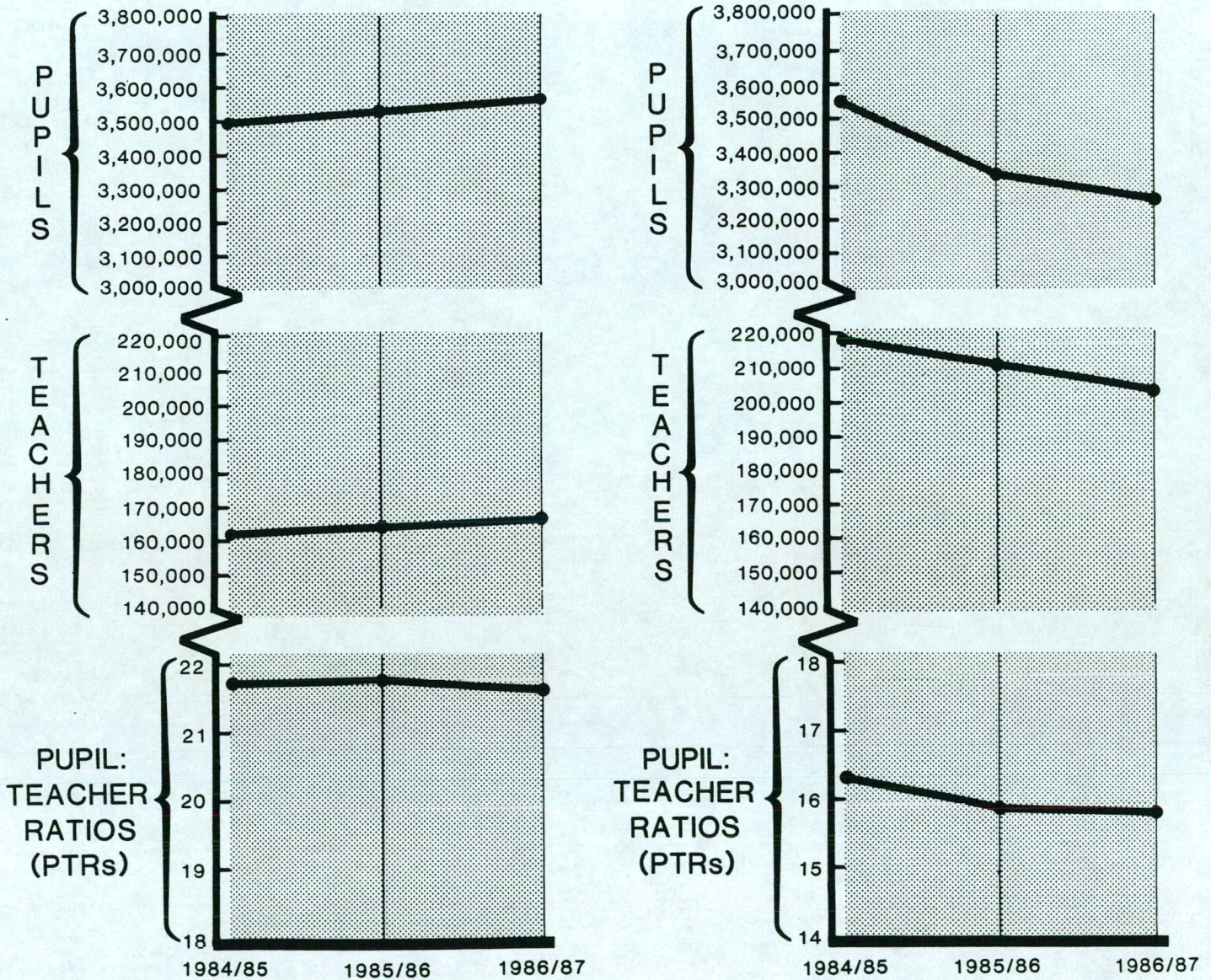
85. The overall standard of work was judged satisfactory or better in almost 80% of visits where an assessment was made. Nearly nine-tenths of classes seen

were judged satisfactory or better for provision and slightly more were 91% similarly assessed for the response of students. The match of tutors' qualifications and experience to the work was helpful in over 90% of lessons seen, as was the quality of teaching in about 80% of sessions observed; these figures suggest a much improved position. Resources were generally satisfactory. Computers were used in only 25 sessions, but in all of these they were judged to be having a beneficial effect. Although accommodation was mostly assessed as satisfactory, there were a number of deficiencies, particularly over specialist rooms. Non-teaching staff affected were involved in only a minority of classes, and their involvement was mostly helpful. Necessary improvements identified included course planning, aims and structures and greater use of school-based work. Most courses were judged to be providing appropriate preparation for future professional tasks.

NUMBERS OF PUPILS AND TEACHERS AND PUPIL:TEACHER RATIOS. (ALL LEAs, ENGLAND)

PRIMARY

SECONDARY



RESOURCES & OTHER FACTORS AFFECTING QUALITY OF WORK

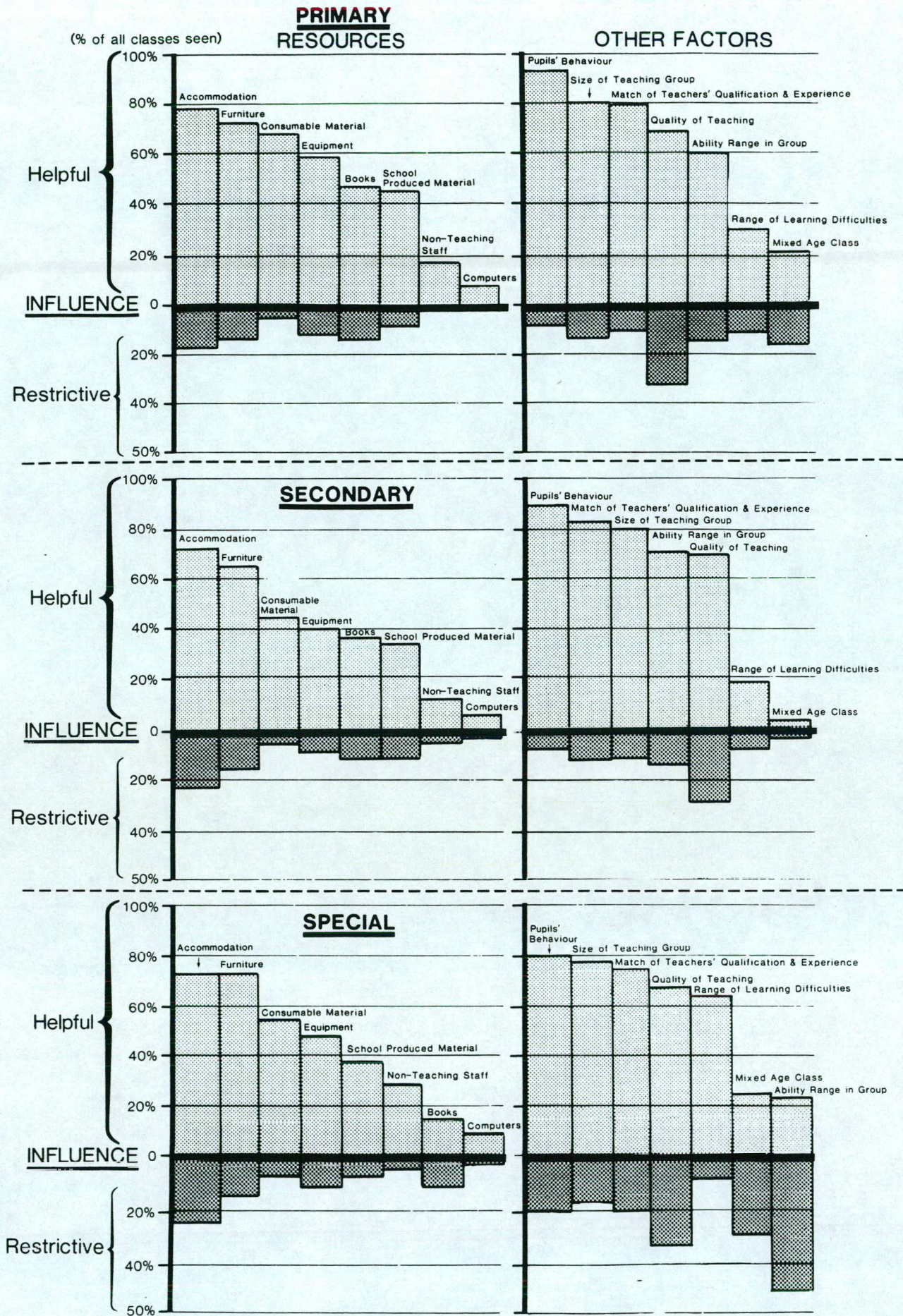


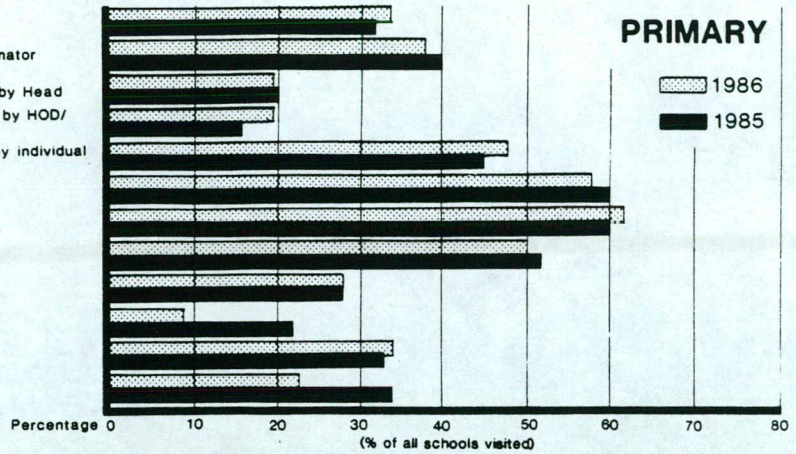
FIGURE 3

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# CHANGES, INTERNAL TO THE SCHOOL, REQUIRED TO EFFECT SIGNIFICANT IMPROVEMENT.

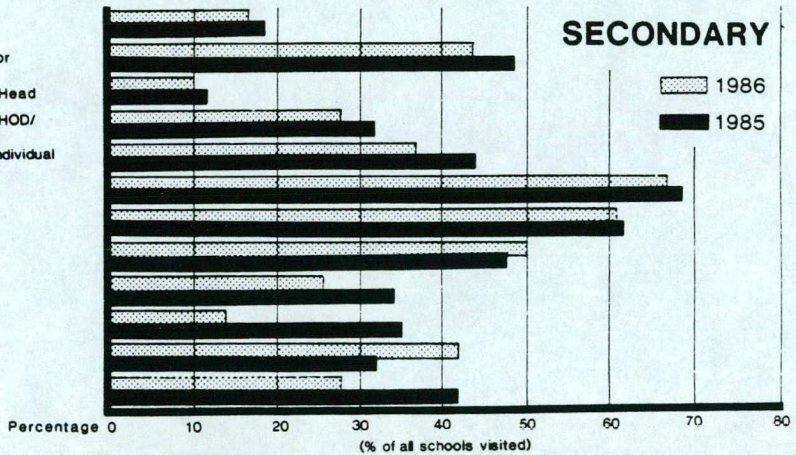
**FACTORS**

- More effective leadership by the Head
- More effective leadership by HOD/subject co-ordinator
- More effective management of existing resources by Head
- More effective management of existing resources by HOD/subject co-ordinator
- More effective management of existing resources by individual teacher
- More appropriate teaching styles
- Better perception of pupils' educational needs
- Higher expectation of pupils
- Better preparation of lessons
- Improved morale
- Greater take up of INSET opportunities
- Closer liaison with other schools



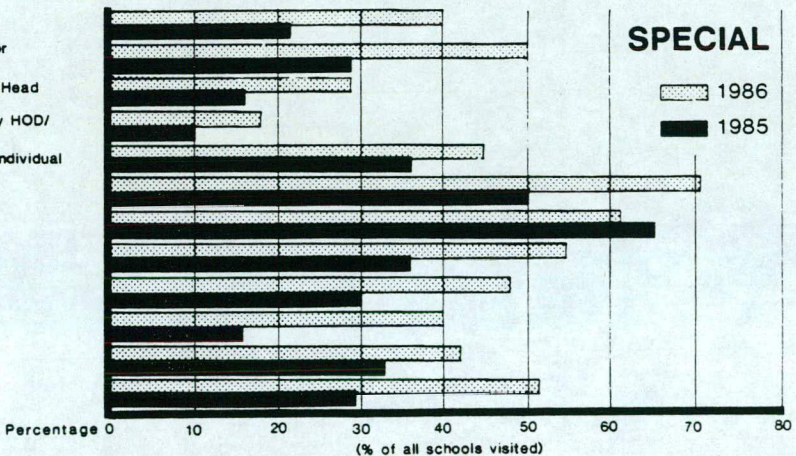
**FACTORS**

- More effective leadership by the Head
- More effective leadership by HOD/subject co-ordinator
- More effective management of existing resources by Head
- More effective management of existing resources by HOD/subject co-ordinator
- More effective management of existing resources by individual teacher
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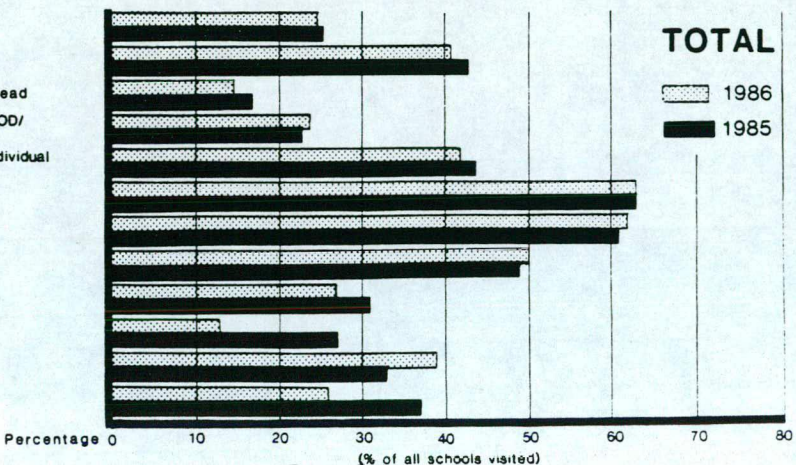
**FACTORS**

- More effective leadership by the Head
- More effective leadership by HOD/subject co-ordinator
- More effective management of existing resources by Head
- More effective management of existing resources by HOD/subject co-ordinator
- More effective management of existing resources by individual teacher
- More appropriate teaching styles
- Better perception of pupils' educational needs
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**FACTORS**

- More effective leadership by the Head
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- Better perception of pupils' educational needs
- Higher expectation of pupils
- Better preparation of lessons
- Improved morale
- Greater take up of INSET opportunities
- Closer liaison with other schools



Footnote to follow

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FIGURE 4

**CHANGES FROM OUTSIDE THE SCHOOL** <sup>BETTER</sup>  
 REQUIRED TO EFFECT SIGNIFICANT IMPROVEMENT: THE PROPORTIONS OF  
 SCHOOLS VISITED WHERE MORE OR ~~ADDITIONAL~~ RESOURCES, OR BOTH,  
 WERE JUDGED NECESSARY.

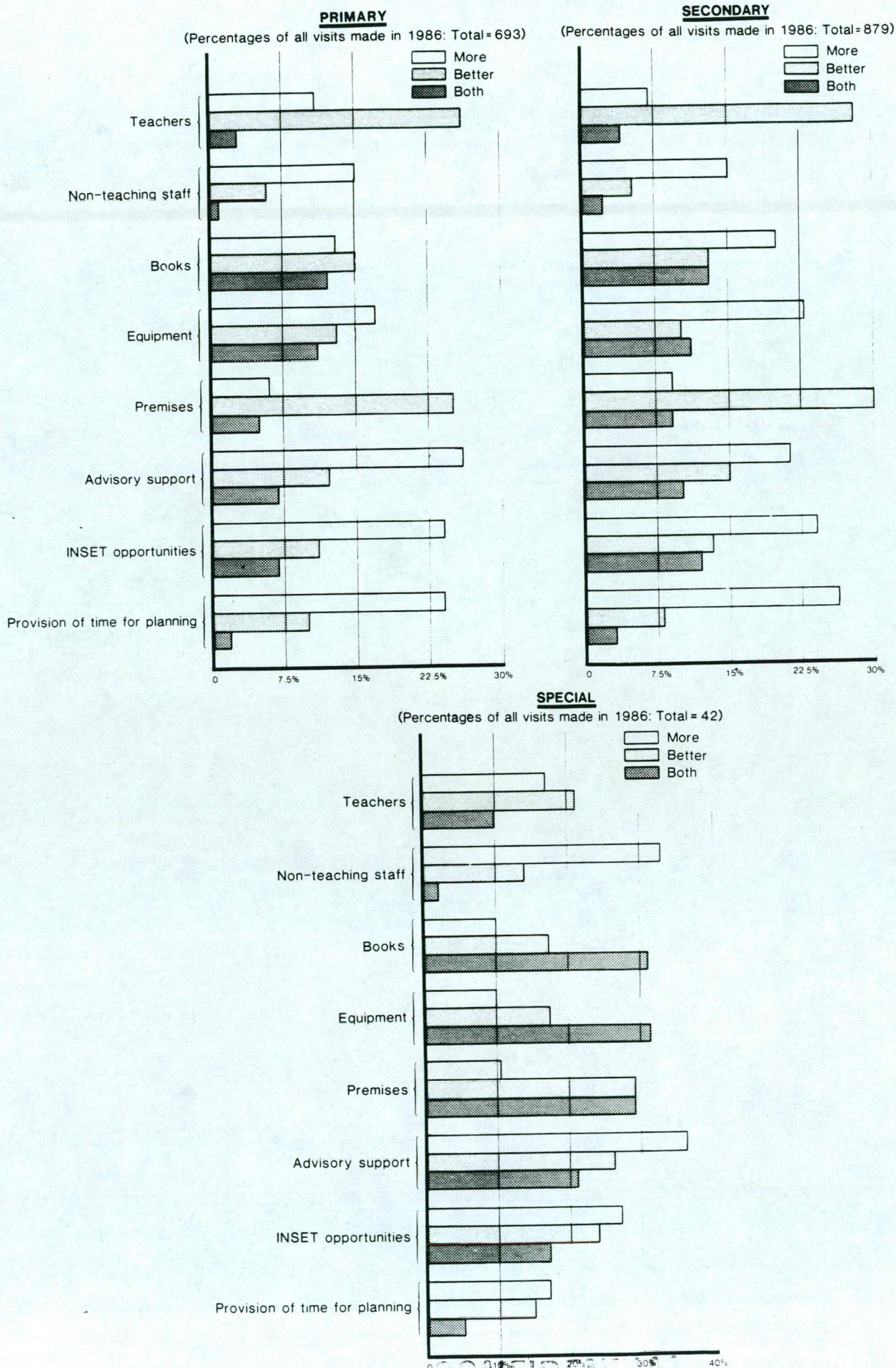
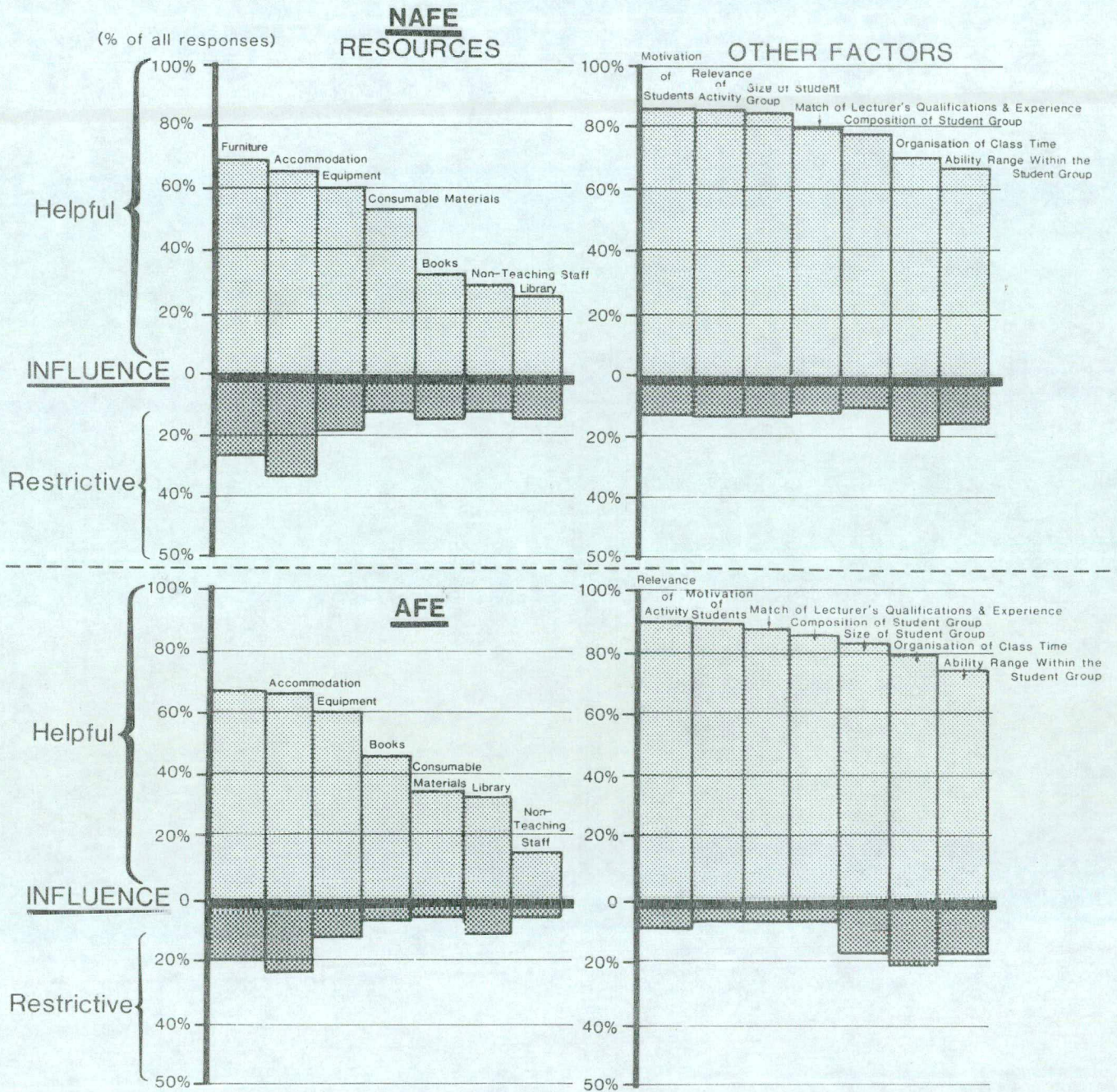


Figure 5

RESOURCES & OTHER FACTORS AFFECTING QUALITY OF WORK



See paragraph 79 for the relevant text. The figure shows the percentage of classes seen where a particular resource or other factor was judged to be having a helpful or restrictive effect.



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FROM: T J BURR  
2 July 1987

CHIEF SECRETARY

cc Chancellor  
Paymaster  
General  
Mr F E R Butler  
Mr Anson  
Mr Gilmore  
Mr Hawtin  
Mr Kelly o.r  
Mr Cropper  
Mr Tyrie

## HMI EXPENDITURE REPORT

In his letter of 30 June to the Lord President, Mr Baker gives notice of his intention to publish the latest report by Her Majesty's Inspectorate on education expenditure, and invites comments on the press notices which he proposes to issue. This submission recommends that you should make a couple of points on the press notices, and also offer some reflections on these reports.

## The report

2. HMI produce these reports every year. In principle they are intended to review the provision being made by local education authorities and the results achieved. Rigorous analysis in this area would indeed be welcome. In practice, the report is little more than a mass of subjective judgements, presented as professional assessments. The criteria for those assessments are not specified with any great precision. In practice the reports tend to convey a generalised worry that not enough is being spent on the education service, without much attempt to make the link between spending and results. For some years it has been the practice to publish these reports. They have not done much harm; but equally they have done little to improve the quality of debate about the use of resources in education.

3. The present report contains a number of thoughts which are

not particularly helpful. It complains about the state of school accommodation, provision of non-teaching staff, lack of advisory support, poor provision of libraries and books, and variation in provision between LEAs. On this last point, it is unfortunate that the report describes the high spending London boroughs as satisfactory, and refers to a "much more uneven picture" in the lower spending Shire counties (top of page 7). Here as elsewhere, no systematic attempt is made to establish whether differences in provision are or are not associated with differences in results. There tends to be an implicit (and unjustified) assumption that more resources means a better service.

4. Having said that, the report contains some helpful points. It says that there is a generally adequate supply of teachers, but highlights the importance of teaching quality. On books and equipment, it says that the quality of resources provided is more often inadequate than the quantity, and draws attention to deficiencies in the use made of even adequate resources. The report says that "unsatisfactory standards are more often related to ineffective deployment of people and resources than to shortages of the resources themselves". And there is a useful footnote pointing out that a reduction in the pupil/teacher ratio should be described as a "fall" and not as an "improvement".

5. Mr Baker does not invite comments on the report, since DES are jealous of HMI's independence (although formally it is part of DES). We think that it would nevertheless be useful to offer the thought that judgements in future reports might be based on more explicit criteria; and that more attention should be given to the relationship between resources and results achieved.

#### The press notices

6. Last year DES published the report with a tendentious press notice headlined 'schools stretched for money and resources', which had not been cleared with the Treasury. The Chancellor raised this in Cabinet at the time, and your predecessor wrote to Mr Baker recording 'extreme concern'. This year Mr Baker

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proposes to issue two press notices: one containing his comments on the report, and another giving a summary of it. His press notice contains a somewhat misleading paragraph (at the top of the second page) which claims credit for recent substantial real increases in education spending as if they addressed the worries in the HMI report, without mentioning that they are largely attributable to increases in teachers' pay. But we can probably let that pass. The following paragraph states, however, that a sustained programme of repair and maintenance of school accommodation is needed; and the last sentence on that page advocates more spending on the GCSE. In both cases the point to make is rather that greater priority should be given to this expenditure within existing provision.

7. The factual press notice in general raises no points which are not already in the report itself. But it would be better if the second page did not refer to a list of increases in expenditure and staffing as "positive features". "Areas of increased provision" would be more neutral.

8. I attach a draft letter to Mr Baker which makes these points. He has asked for comments by close on Monday 6 July.

*T. J. Burr*

T J BURR

CONFIDENTIAL

1674

DRAFT LETTER

FROM: CHIEF SECRETARY

TO : SECRETARY OF STATE FOR EDUCATION

cc : as indicated

HMI EXPENDITURE REPORT

You copied to me your letter of 30 June to Willie Whitelaw on this subject.

2. The press notice commenting on the report advocates a sustained programme of repair and maintenance for school buildings, and increased provision for the GCSE. I am concerned to avoid appearing to urge additional expenditure on local authorities. The point to be made is surely that these expenditures deserve higher priority within existing provision. I therefore suggest that on the second page, in the second paragraph, the last sentence should read

"This higher priority will need to be sustained over several years ..."

and that the last sentence of the fourth paragraph on that page should be amended to read

"I hope that HMI will find that due priority is being given to GCSE this autumn ..."

3. In the factual press notice, I would rather not described the list of increases in provision and expenditure on the second page as "positive features", since we should not promote the

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idea that additional expenditure is of itself a good thing: it is the results which matter. I suggest that "areas of increased provision" should replace the words "among the positive features". I think, incidentally, that "increasing" in the first indent of this paragraph should be "decreasing".

4. I recognise that you are not seeking comments on the report itself, which is an expression of HMI's own judgements. It may however be worth offering the reaction that there seems to us to be scope for being more explicit about the criteria on which some of the professional assessments in these reports are based, particularly where the adequacy of resources is in question. We also thought that these reports could be clearer about the relationship between levels of provision on the one hand and the results achieved on the other. For example, the report emphasises the variation in provision which exists as between LEAs. It does not say much about the extent <sup>to which</sup> provision is justified by better results or, conversely, whether lower provision necessarily means worse results. Greater attention to the issues of efficiency and effectiveness would be welcome.

5. I am copying this letter to the Prime Minister and other Members of the Cabinet, and to Sir Robert Armstrong.



pmf.

(P)

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

The Chancellor of the Exchequer and Mrs Nigel Lawson thank The Prime Minister and Mr Denis Thatcher for their kind invitation to a Reception at 10 Downing Street, Whitehall on Tuesday 21 July and have much pleasure in accepting.

2 July 1987



The Prime Minister  
and Mr. Denis Thatcher

request the honour of the company of

*The Rt Hon Nigel Lawson*

---

at a Reception at 10 Downing Street, Whitehall  
on Tuesday, 21st July 1987 from 6.30 p.m. to 8 p.m.

*Please note:*

When the Metropolitan Police allow chauffeur-driven cars to wait in Downing Street, the drivers must remain in their vehicles

*An answer is requested to:*

The Secretary (Invitations),  
10 Downing Street, Whitehall,  
London, SW1A 2AA

C/ cc Mrs Lawson.  
Diary is clear. ✓ Accept / Regrets - for you both?

Julie  
1/7.

AS per the  
Whiston  
to the  
for:

Typist's Acceptance  
pl:

Julie  
2/7



TOP WITH  
MRS LAWSON



ADMIT

The Rt Hon Nigel Lawson

to a Reception at 10 Downing Street, Whitehall

on Tuesday, 21st July, 1987

In the event of acceptance, please bring this card, which  
must be presented at the door.

FROM: MRS R LOMAX

DATE: 3 JULY 1987

PRINCIPAL PRIVATE SECRETARY

cc PS/Economic Secretary  
Sir P Middleton  
Mr Cassell  
Miss Noble  
Mr Board  
Mr D Jones

*Thanks. Office shd  
2. Lloy's aware  
of his statement  
on MMC references  
in Parliament.  
3. NAB X (page C)*

MIDLAND

The Chancellor might be interested in the attached background notes on Midland, the NAB, reciprocity, the MMC etc. We will be working up a proper briefing line on Monday.

x | 2. As I told you on the phone, I do not believe that the deal will be called off if there is an MMC reference. I recall Kit MacMahon's earlier attempt to extract an assurance that there would be no MMC reference (when TSB was the prospective purchaser). What killed that deal was the TSB Board's lack of interest, not Sir Gordon Borrie's unofficial view that there probably would be a reference.

RACHEL LOMAX

*P.S. On x, the Board have told me that NAB have tried to tell them that they were witnesses of there is an MMC reference. However, it is interesting that I heard this for the first time after you had conveyed the Chancellor's scepticism on his point. better late - but a word.*

NATIONAL AUSTRALIA BANK (NAB)

NAB is the product of the merger of 2 of Australia's oldest banking organisations. It is the largest Australian commercial bank in terms of assets. It has offices in the US, Europe, SE Asia and Tokyo. The 1986 annual report comments: "While the Bank has a firm commitment to expand off-shore, it will be selective with the primary focus continuing on domestic operations..... In the UK and Europe our operations are controlled and supported by the Bank's London office, where the emphasis is on wholesale banking, trade, investment and important correspondent banking relationships. While our progress in this market is considered to be satisfactory, the London wholesale market with 450 banks is extremely competitive and other avenues for profitable diversification are being considered".

2. Profit was stagnant in the last year (at A\$300m, or £140m at the current exchange rate); NAB attributed this to difficult economic conditions in Australia. Total assets increased by 20% to A\$42bn (£19bn). The ratio of primary capital to total assets was 5.5%.

3. Australia is well advanced into electronic banking but NAB emphasise that this is complementary to, rather than a substitute for, retail branch networks and face to face contact. Further extracts from the report: "By late 1986 the Bank will be introducing a "state-of-the-art" system to deliver a reliable and highly competitive cash management service for corporate and commercial customers, and to permit trade customers to conduct and manage electronic letter of credit operations ..... The Bank regards its retail branch network as a major competitive strength .... While many routine banking transactions can now be performed electronically, face-to-face contact remains vital in sustaining existing customer relationships, maximising service and building new business."

[4. NAB are working over the weekend on their public line on possible job losses and preservation of corporate identity. The Bank are in touch with them. We hope to know more on Monday.]

One (potentially) sensitive area is NAB's owners. According to NAB's annual report, the first and third largest stockholdings last November were National Nominees Ltd (11.8%) and ANZ Nominees Ltd (6.1%) (in between there is the Australian Mutual Provident Society with 7.4%). The nominee holdings may well be harmless, but the Bank do not know. (From October the Bank will have new powers to investigate the ownership and control of banks, if they judge it to be in depositors' interests to do so - Section 41 of the 1987 Act.)

## Stockholders and Noteholders of the Bank As at November 27, 1986

	Number of stock units	%	Number of Notes	%
National Nominees Limited	41,256,606	11.83	7,713,400	14.06
Australian Mutual Provident Society	25,932,607	7.44	2,549,900	4.65
A.N.Z. Nominees Limited	21,176,043	6.07	6,174,341	11.26
MLC Life Limited	10,003,978	2.87		
CTB Nominees Limited	9,957,039	2.86		
Chase Nominees Limited	9,090,909	2.61		
Citicorp Nominees Pty Limited	8,302,640	2.38		
N.R.M.A. Investments Pty Limited	6,385,093	1.83	881,100	1.61
Bank of New South Wales Nominees Pty Limited	6,132,948	1.76		
Indosuez Nominees Pty Limited	4,532,601	1.30		
Jomet Pty Limited	4,474,400	1.28		
The Colonial Mutual Life Assurance Society Limited	3,698,155	1.06	703,300	1.28
Capita Financial Group Limited	3,500,000	1.00		
ISMC Nominees Pty Limited	3,079,234	0.88		
Wardley Australia Nominees Pty Limited	2,534,931	0.73		
Perpetual Trustee Company Limited	2,495,529	0.72		
T & G Mutual Life Society Limited	2,266,185	0.65		
ANZ Executors Nominees N.S.W. Limited	2,098,219	0.60	1,125,900	2.05
Public Authorities Superannuation Board (Fund 1)	2,059,000	0.59	759,100	1.38
Superannuation Fund Investment Trust	2,030,000	0.58		
The National Mutual Life Association of Australia Limited			4,030,900	7.35
State Superannuation Board			1,254,900	2.29
Westpac Custodian Nominees Limited			1,135,300	2.07
JP Morgan Nominees Pty Limited			1,132,550	2.07
Association Nominees Pty Limited			1,100,000	2.01
Haematite Pty Limited			1,000,000	1.82
State Government Insurance Office (N.S.W.)			955,500	1.74
Barclays Australia Custodian Services Limited			800,100	1.46
The Mercantile Mutual Life Insurance Company Limited			562,300	1.03
State Government Insurance Office (Qld)			538,100	0.98
Public Authorities Superannuation Board (Fund 2)			519,100	0.95
Zurich Australian Life Insurance Limited			500,000	0.91
Morganell Nominees Pty Limited			457,075	0.83
	<b>212,262,723</b>	<b>49.04</b>	<b>33,892,866</b>	<b>61.8</b>

Note: Stockholdings and noteholdings have not been shown in the above table where such holdings fall outside the range of the top twenty stockholders and noteholders.

The twenty largest stockholders held 212,262,723 stock units which is equal to 49.04% of the total issued capital of 348,707,349 fully paid ordinary stock units of \$1 each and the twenty largest noteholders held 33,892,866 notes which is equal to 61.8% of the 54,843,550 10% convertible unsecured notes on issue.

### Voting Rights

Stock units: The Articles provide in summary that every member (and person entitled under the transmission Article) present in person or by proxy, attorney or representative shall have one or more votes as follows:  
On a show of hands - 1 vote\*  
On a poll - 1 vote for each stock unit held

\*Where a member appoints two proxies neither proxy is entitled to vote on a show of hands.

Convertible notes: Noteholders are not entitled to attend or vote at any general meeting of stockholders of the Bank.

Under the Banks (Shareholdings) Act 1972, as currently in force, a person or corporation is not permitted to hold 10 per cent or more of the nominal value of the voting shares of any bank in Australia unless an exemption has been granted by the Treasurer to hold up to 15 per cent of the nominal value of such voting shares. The Act also provides that the Governor General, after application to the Treasurer, may fix a percentage higher than 15 per cent for any person or corporation.

## Distribution of Stockholdings and Noteholdings

Range	Number of stock-holders	% of stock-holders	Number of stock units 000's	% of stock units	Number of note-holders	% of note-holders	Number of notes 000's	% of notes
1 - 1,000	19,081	44.50	8,842	2.54	9,336	82.59	3,433	6.26
1,001 - 5,000	18,315	42.71	43,219	12.39	1,628	14.40	3,702	6.75
5,001 - 10,000	3,348	7.81	23,561	6.76	149	1.32	1,158	2.08
10,001 and over	2,134	4.98	273,085	78.31	192	1.69	46,570	84.91
	<b>42,878</b>	<b>100.00</b>	<b>348,707</b>	<b>100.00</b>	<b>11,305</b>	<b>100.00</b>	<b>54,843</b>	<b>100.00</b>
Less than marketable parcel	1,471	3.43	65	0.02	23	0.02	1	0.01
Category of Holder								
Males	14,156	33.01	29,640	8.50	3,782	33.45	2,536	4.62
Females	19,833	46.25	43,971	12.61	4,957	43.85	3,342	6.09
Joint	3,533	8.24	9,954	2.85	1,053	9.32	1,047	1.91
Deceased	347	2.21	3,020	0.87	214	1.89	139	0.25
Companies	492	1.15	122,021	34.99	163	1.44	22,011	40.14
Companies	3,917	9.14	140,101	40.18	1,136	10.05	25,768	46.99
	<b>42,878</b>	<b>100.00</b>	<b>348,707</b>	<b>100.00</b>	<b>11,305</b>	<b>100.00</b>	<b>54,843</b>	<b>100.00</b>
Address of Holders								
Australia	39,196	91.41	328,142	94.10	10,703	94.67	53,809	98.11
United Kingdom	2,161	5.04	15,161	4.35	292	2.58	570	1.04
New Zealand	1,140	2.66	3,341	0.96	219	1.94	115	0.21
United States	66	0.15	523	0.15	3	0.03	4	0.63
Other Overseas	315	0.74	1,540	0.44	88	0.78	345	0.63
	<b>42,878</b>	<b>100.00</b>	<b>348,707</b>	<b>100.00</b>	<b>11,305</b>	<b>100.00</b>	<b>54,843</b>	<b>100.00</b>

## Directors' Interests

The table below shows the interests of each Director in stock units and convertible notes of the Bank as at November 27, 1986.

	Stock units of \$1 each		1984 Issue of 60,000,000 10% Convertible Unsecured Notes of \$340 each	
	Held Beneficially	Held Non-Beneficially	Held Beneficially	Held Non-Beneficially
Sir Rupert Clarke B.M.B.E. (Chairman)	49,966	3,007,250	5,000	576,100
Sir Peter Finley O.B.E. D.F.C. (Vice-Chairman)	17,482	-	2,200	-
NR Clark (Managing Director)	*4,618	3,007,250	-	576,100
PJW Cottrell O.B.E.	2,000	-	-	-
DAT Dickins	5,365	12,200	-	-
WH Hodgson (Deputy Managing Director)	*3,948	-	1,000	-
WRM Irvine	6,324	2,882,250	-	-
DK Macfarlane	2,118	-	11,000	463,300
RN Millar	3,161	-	400	-
MR Rayner	2,053	-	-	-
JC Trethowan	2,188	-	-	-
Sir Bruce Watson	3,000	-	-	-

\*These figures include entitlement to shares issued pursuant to National Australia Bank Staff Share Scheme.

There were no changes in Directors' interests between October 1, 1986 and November 27, 1986.

## CLYDESDALE BANK PLC

5. Clydesdale Bank is a recognised bank which is part of the clearing system. Although it is a wholly owned subsidiary of Midland, it is member in its own right of the BACS and CHAPS (electronic) clearing systems, and of the London town clearing, as well as of the separate Scottish cheque clearing.

6. It has about 350 branches and 6,600 staff. Its advances to customers (£1.8bn) represent about 12% of the market covered by the 4 leading Scottish banks (Bank of Scotland, Royal Bank of Scotland, TSB Scotland and Clydesdale). Since the Bank and Royal Bank of Scotland have significant non-Scottish business, Clydesdale's "Scottish" market share will be higher; it will also be higher in corporate finance where Clydesdale is relatively strong and TSB Scotland is relatively weak. Bearing in mind the point about non-Scottish business, the league table of the 4 banks ranked by total assets is:

Royal Bank of Scotland	£15bn
Bank of Scotland	£ 8bn
Clydesdale	£ 2.8bn
TSB Scotland	£ 1.8bn

7. Clydesdale has been retrenching (see Annex B). Its profit in 1986 (£17m after tax) was fractionally lower than in the previous year. The report commented that profit was satisfactory "during a time of continuing economic difficulty in Scotland". Sterling advances had increased by over 10%. But the report identified as particular problems the bank's cost base and substantial charges for bad debts, the latter partly blamed on difficult times in the Scottish oil <sup>ic</sup> serving and supply industries, construction and agriculture.

8. As a result of the Bank Notes (Scotland) Act 1845, Scottish banks which then issued their own bank notes were permitted to continue to do so. (It differed from the English legislation *which* deprived banks of this privilege when they amalgamated.)

Clydesdale, the Bank of Scotland and the Royal Bank of Scotland are the only banks which issue Scottish banknotes. Clydesdale notes account for about 25% of the Scottish issue. Scottish banknotes are not legal tender and, since the issuing banks have to back virtually all their notes with holdings of Bank of England notes, they do not profit by printing money.

9. The chairman and board of Clydesdale are at Annex C. [The Bank of England do not know the views of Clydesdale management but have pointed out this issue to NAB.]

#### Northern Bank Limited

10. Northern Bank Ltd is a wholly owned subsidiary of Midland, incorporated in Northern Ireland. It is the largest bank in Northern Ireland. In the business sector it provides over 50% of clearing bank lending in the Province.

11. The bank has 2,200 staff. Total assets in 1986 were £1.4bn and profits after tax rose to £11.4m (from £9.3m). Like Clydesdale, Northern Bank's report emphasises the need to reduce its cost base, and the effect of difficult regional economic conditions.

## The Scotsman

# Warning as Midland disappoints City

By TIMON DAY

The Midland Bank is planning to improve the profits from its two UK Banking offshoots, the Clydesdale and the Northern banks, by creating a "much more closely-knit UK banking operation," said Sir Donald Barron, chairman, yesterday.

Group first half profits disappointed the market with a rise of 29 per cent, from £151 million to £195 million before tax, and the shares fell 5p to 547p, in spite of the first interim dividend increase for three years, from 11p to 11.5p.

"Our challenge is to integrate our UK banks," said Sir Donald, pointing to the Clydesdale, and the Northern banks, in Northern Ireland. But he denied that their autonomy would be reduced.

The Midland intends to offer its services throughout all its operations, rather than have the Clydesdale and Northern introducing and marketing their own products.

The integration plan is proceeding "very harmoniously," said Sir Donald, who admitted Clydesdale's profits were little changed in the half from that period in 1985 — though he will not disclose the actual figures.

There has been little rise in the bad debt experience at the Clydesdale as a result of falling oil prices, in spite of the

bank's extensive loans to the offshore industry through its Aberdeen office.

The loan capital ratios at the Midland are weak, however, said a banking analyst at the bank's stockbroking offshoot, W. Greenwell. He forecast a possible rights issue next March when the full year's results are announced.

The broker is worried that Midland's ratio of loans to capital has jumped from 40.6 per cent at the end of 1985 to 44.8 per cent at the end of June, in spite of selling Crocker National, in the U.S. for £733 million in the half year.

"Unless Midland boosts its capital base, the bank will become the laggard of the UK clearing banks," said Greenwell.

But Sir Donald said there was no intention of making a rights issue; he pointed to the increase in the free capital ratio from 5.9 to 6.7 per cent.

A big rise in the charge for general provisions for bad and doubtful debts, from a credit of £27 million to a debt of £72 million, slashed international profits from £178 million to only £37 million. This still represented good growth on the £26 million profit recorded for that period last year.

Sir Donald refused to reveal the reasons for the big rise in overseas provisions though he

said some difficulties were seen by the bank's international commercial borrowers.

Greenwell commented that the bank had a lot of catching up to do as it had not made any provisions until now for its sovereign lending. "The banks make general provision according to their ability to pay, not according to need," said its analyst.

There are more risks internationally than domestically, and more than in the past," said Mr Geoffrey Taylor, Midland's chief executive. Loans to Brazil and Mexico total £2.7 billion.

The total charge for bad and doubtful debts rose from £182 million to £210 million. Operating expenses were closely contained, helping lift domestic profits by £33 million to £158 million.

Another 100,000 customers opened current accounts in the first half, bringing the total to about 4.5 million, and they borrowed £400 million through overdrafts and £600 million more through home loans.

The Midland refused to say how much Gilt-edged profits it earned, or how well its new investment banking unit, consisting of Samuel Montagu, the merchant bank, W. Greenwell, the stockbroker, and the Treasury operation was performing.

The full year's pre tax profits could rise from £351 million to about £420 million, said Greenwell.

Scotsman 1/8/86 file - Leaver's results



F.T. 3rd Dec '86.

fu

## Clydesdale Bank to close 25 branches and cut staff <sup>R4</sup>

BY JAMES BUXTON, SCOTTISH CORRESPONDENT

CLYDESDALE BANK, the Glasgow-based institution wholly-owned by the Midland Bank, announced yesterday that it was to close 25 branches and shed 350 clerical staff over the next two to three years in a big restructuring of its banking operations.

The Clydesdale is to divide its banking operation between the retail and the commercial

sectors and create a central services division to reduce costs and compete more effectively.

Mr Richard Cole-Hamilton, chief general manager who is to become chief executive of the reorganised bank, said yesterday the clerical jobs lost would be comfortably absorbed by natural wastage, which runs at about 500 people a year. Redundancies should not arise.

The branch closures will reduce the bank's Scottish network to about 350 branches. Several bank managers may lose their jobs as rural branches come under the control of senior managers.

Mr Cole-Hamilton said no early decision would be taken on whether to create a single computer centre for the entire retail banking operation of the

Midland Bank and its subsidiaries.

The Clydesdale, with a total payroll of 7,000, employs about 800 in its Glasgow computer centre.

Last night the Banking, Insurance and Finance Union, claimed the Clydesdale was planning far larger cuts than it was admitting and that the computer centre would be closed.

ANNEX B

# Report and Accounts 31 December 1986

ANNEX C

## Directors

Chairman Sir Eric Yarrow MBE, DL

Deputy Chairman Sir William Coats

Walter R. Alexander CBE

The Rt Hon The Viscount of Arbutnott CBE, DSC, JP

Sir Donald Barron DI

T. Norman Biggart CBE

David Birrell

A. Richard Cole-Hamilton

Douglas F. Hardie CBE, JP

Alexander Ledingham

Sir Norman Macfarlane

Alexander R. Macmillan

Sir David McNee QPM

David W. Nickson CBE, DL

The Rt Hon The Lord Sanderson of Bowden

Sir Iain Tennant KT

## Executive Management

Chief Executive A. Richard Cole-Hamilton

Deputy Chief Executive Robert A. Laurenson

Director Central Services John W. McKinlay

Director Corporate Banking Robert C. Legge

Director Retail Banking D. Ritchie Robertson

Finance Director Leonard R. Donaldson

Credit and Risk Director David E. Eccleshall

Operations Director – Corporate Banking John Cook

Operations Director – Retail Banking David L. Bayne

Secretary James Russell

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CLYDESDALE

I. MMC Scrutiny of foreign acquisition of UK banks

1. Fully debated during proceedings on recent Banking Act. Government's position clear that MMC provided appropriate means for consideration of public interest aspects of foreign acquisitions of UK banks; as well as competition policy and regional aspects. (Hansard Extracts at Annex A.)

2. Government not committed to refer all such cases, but there has been a precedent - Royal Bank of Scotland case, where MMC found against acquisition by Hong Kong and Shanghai Banking Corporation. Individual cases to be judged on their merits, but presumption in favour of reference for a "high street" clearing bank such as Clydesdale (especially given regional implications).

II Reciprocity

3. The Financial Services Act reciprocity powers are in force. They allow the Secretary of State or the Treasury to refuse, remove or restrict authorisation to carry on banking, investment or insurance business in the UK if the institution is 'connected' with a country which does not allow UK firms to carry on any such business on terms as favourable as those available in the UK. The Secretary of State or the Treasury must also consider it to be in the national interest that such action be taken, and must consult affected parties.

4. These are not powers to block acquisitions. In the Clydesdale case, they would operate after the acquisition, when Clydesdale would have become "connected" with an overseas institution. The sanctions would be removal or restriction of Clydesdale's authorisation. (The threat to do so might also be used beforehand.)

5. The new Banking Act reciprocity powers are not yet in force. During the final Commons stage of the Bill the then Economic

Secretary announced the Government's intention to bring the bulk of the Act's provisions (including the reciprocity powers) into force on 1 October 1987. This is still the intention.

6. The Banking Act powers are explicitly aimed at preventing acquisitions of control before they take place. All proposed acquisitions of 15 per cent or more of UK banks will be required to be notified to the Bank in advance. The reciprocity provision empowers the Treasury to direct the Bank to serve a notice of objection in respect of a proposed foreign acquisition if the result of the acquisition proceeding would be to make the institution subject to the FS Act reciprocity powers (referred to above).

7. In the Clydesdale case, therefore, if the Banking Act powers were in force they could be used to prevent the acquisition, provided the reciprocity and national interest cases could be made out.

8. It would be difficult to maintain that restrictions imposed by the Australian authorities (eg the Foreign Takeovers Act 1975) did not amount to at least a prima facie case for objection on reciprocity grounds. Opposition to the Clydesdale acquisition may therefore take the form of pressure either to use, or threaten to use, the FS Act powers, or to bring the new Banking Act powers into force early. In resisting such pressure it will be important to avoid compromising any position the Government might wish to take in a future case, particularly involving an Australian acquiror, but also more generally. (There is a risk that statements made in a case where no objection was raised could be used in future to claim that the Government could not equitably object to an 'analogous' case.)

9. In resisting such pressure, reference can be made to Government statements on the overall purpose of the reciprocity provisions (in both Acts) being to encourage the opening of markets overseas and not to close-up UK markets, (see Hansard extracts at Annex B) and the need to take account of the wider

national interest. On the assumption that a reference to the MMC is made, it can also be argued that any thought of reciprocity action in this case would be premature before the MMC had thoroughly investigated the issues within its remit.

### III Scottish Aspects

10. The Banking Bill debates revealed a strong lobby north of the border in favour of national interest powers to prevent foreign acquisitions of Scottish banks. (See letters at Annex C from the Secretary of State for Scotland and Lord Thomson of Monifieth.) This may emerge again in the context of the Clydesdale acquisition, not least in terms of the other Scottish banks wanting to put down a market for possible future cases.

COMMERCIAL IN CONFIDENCE

*please  
insert*

FROM: F CASSELL  
6 July 1987

CHANCELLOR



cc Financial Secretary  
Sir Peter Middleton  
Mrs Lomax  
Mr Board

**MIDLAND: PROVISIONS**

In connection with the steps they will be announcing tomorrow Midland Bank have been having preliminary discussions with the Inland Revenue about the tax treatment of the major provisioning they are making.

These discussions have been conducted in the normal way, as between a taxpayer and the Revenue, and are governed by strict confidentiality. Their details are therefore not known to us. But the Revenue have indicated to me that they are not able to accept, as qualifying for tax relief, the full amount of the provision. They will shortly be letting Midland know this.

The point at issue, as I understand it, is not related to the broader question of the tax treatment of provisions - in other words what proportion of a particular debt is allowable - but rather how much of the loans on a bank's books count for UK tax purposes. From this I imagine that the difference between what Midland are claiming and what the Revenue are prepared to accept relates to the old Crocker debts.

This is entirely a matter for the Board of Inland Revenue. But I thought that you ought to be aware of it, just in case Midland refer to the tax position in the course of answering questions on their announcement tomorrow.



F CASSELL



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

PS/

**CONFIDENTIAL  
MARKET SENSITIVE**

6 July 1987

*pyg*

Alex Allan Esq  
Private Secretary to the  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1

CH/EXCHEQUER	
REC.	06/07/1987
ACTING	Mrs Loman
COPIES TO	Sir P Middleton
	Mr Cassell
	Miss Noble
	Mr D Jones
	Mr D Beard

*Mr Culpin*

*Dear Alex*

**MIDLAND BANK**

We spoke about the expected announcement tomorrow by Midland of the disposal of one of their subsidiaries to the National Australian Bank. I thought it might be helpful to circulate the line we propose to draw on when asked about my Secretary of State's position in this disposal.

This would be as follows:

X

" This proposal qualifies for investigation under the merger control provisions of the Fair Trading Act 1973. Our policy is to make references primarily on competition grounds. In evaluating the competitive situation in each case, the Secretary of State has regard to the international context - that is, to the extent of competition in the home market from non-UK sources and to the competitive position of UK companies in overseas markets.

Before the Secretary of State takes his decision whether or not to refer he takes advice from the Director General of Fair Trading. The Director General will examine this proposal and advise the Secretary of State in due course. It would not



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be appropriate to prejudge the Director General's advice by commenting further at this point. Any persons who wish to make representations should contact the

Director General of Fair Trading  
Office of Fair Trading  
Field House  
Bream's Buildings  
London  
EC4A 1PR            Tel: 01 242 2858

Clearly not all of this might be needed in answer to every question. My Secretary of State has a quasi judicial role in matters of this kind and I very much hope that statements about this role will be confined to the points in our line to take.

I am copying this to David Norgrove (No 10), Robert Gordon (Scottish Office) and David Watkins (Northern Ireland Office).

*Yours*

*T Walker*

TIMOTHY WALKER  
Private Secretary

DW1DDB



CONFIDENTIAL

Papered  
P/S  
1 Alex  
22.  
py

1. MR POTTER BAP 6/7
2. CHIEF SECRETARY

FROM: R FELLGETT

Date: 6 July 1987

cc: PS/Chancellor  
Sir P Middleton  
Mr F E R Butler  
Mr Anson  
Mr Hawtin  
Mr Turnbull  
Mr Scholar  
Mr Potter  
Mr Tyrie

1988-89 RATE SUPPORT GRANT: THREE YEARS PLANS FOR GRANT, AND NETS AND CAPS

Miss Rutter passed on your request for advice about the prospects of setting a plan for Aggregate Exchequer Grant for the years 1988-89, 1989-90 and 1990-91; and about whether nets and caps could be set in a way that would replicate the uniform change in block grant of a frozen grant settlement.

A 3 year grant plan

2. There could be advantages in an announced three year path for grant. It should be possible to agree that the forward path should rise no faster than forecast inflation, to avoid giving any signal in advance that the Government would finance a more rapid increase in local authority spending. There would continue to be pressures each year to increase grant rather more, particularly in 1989-90 and 1990-91 as the community charge is introduced in Scotland and then England and Wales. But these might be easier to resist if any increase in grant represented a retreat from the Government's previously announced figures.

3. However, so long as local authority spending, rather than grant, is included in the planning total of public expenditure, grant is liable to continue to be regarded as "free" by other departments. Three years figures might simply mean there were three opportunities, rather than one as at present, to argue

the figures up.

4. A three year plan for grant would, therefore, only be clearly advantageous as part of a change to a central government planning total. Colleagues would then see very clearly that any increase in grant meant less for central government spending programmes. (At present this argument works only indirectly, by arguing that lower grant will influence local authorities to moderate their spending and, in turn, leave more scope for central government priorities.) A change to a central government planning total, including grant, would anyway require forward figures.

5. When the proposal to move to a new planning total is put to other departments, we will then need to consider carefully what to suggest to colleagues. For example, frozen grant (if that is decided for 1989-90) would need to be set at a lower level than a conventional AEG plan, because there would be no under claim at outturn.

6. I would advise against trying to settle later year figures for grant immediately. On the assumption that a forward path would be broadly level in real terms, E(LA) will be more reluctant to agree a reasonable increase in grant for 1988-89 if a higher figure would mean equally higher figures for the later years. And I doubt if colleagues would be willing to turn to decisions on 3 years grant before the summer Recess; they are likely to feel they already have enough to settle in E(LA) in the time available.

#### Nets and caps

7. My earlier submissions explained that decisions on these mechanisms in the autumn could significantly alter the distribution of grant, and hence rate increases, among different authorities. For example, I am confident that the gap between average projected rate rises in the shires and in London could be narrowed somewhat. However, I doubt if the gap could be closed, as much of inner London benefits from rate capping. And nets and caps are a fairly blunt instrument for equalising

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changes in grant: even if the gap could be closed (which I doubt) many individual authorities would very likely end up with grant entitlements and rate changes well above and below the average.

8. I should also explain that the distribution of block grant will depend on other factors. There include changes in data (more schoolchildren in A and less in B means more GRE for A and less for B and a consequent shift of grant to A), and decisions on the service distribution of GRE (more for education means more block grant for shire counties and metropolitan districts, but less for inner London because ILEA can tap the rateable resources of the City and Westminster and is therefore not entitled to any block grant.) The effect of data changes will be particularly hard to predict until all the information is available in the autumn.

*Rob: Fellgett*

R FELLGETT

Mark Bond



Per up as follows  
(as per of pop mt):  
Stan Lane,

Forgive me for not  
reply sooner to your  
letter of 6 July on the  
Comm & Charge.

I understand your  
concern, and have much  
sympathy with the views  
you express. I have taken  
the liberty of sending a  
copy of it to Nick.  
Yours truly,



From: David Mitchell, M.P.

HOUSE OF COMMONS  
LONDON SW1A 0AA

Rt Hon Nigel Lawson, PC MP  
Chancellor of the Exchequer  
11 Downing Street  
London SW1

6 July 1987

*Dear Nigel,*

It is very important that we get the community charge right, for it will have a profound influence on our electoral fortunes both locally and at the next general election. It is not ~~my Department~~ but may I put two points to you.

First, if the new system is to exercise an effective restraint on spendthrift attitudes in local government, it requires both that all the voters are payers ~~AND~~ that the councillors perceive the direct link between their decisions and the effect on the charge. As long as nearly half of all their spending is paid by central government, councillors will continue to say "£1,000 for a new public loo--but it only costs us half that so it's worth it."

The logic leads to removing education from local authority spending and cutting out most of the RSG. The constitutionalists will throw up their hands in horror, but in the real world it is not county councils which decide the level of spending. That is determined by teachers' pay and standards laid down by the Department of Education and Science. None of this is new to you but I am worried we are going to get it wrong.


Secondly, I fear the community charge as currently envisaged will lead directly to a wealth tax. My stockbroker neighbour in Hampshire, in his £450,000 house, was incredulous that he would pay the same community charge as his cleaning lady. My worry is that the wretched middle class social consciences will talk public opinion into perceiving a need for some redress, and the Chancellor will come under great pressure to introduce a wealth tax. As justification for this it will be said you are only being asked to take back part of the huge benefit the wealthy (perceived as those with large houses) have secured from the ending of rates.

Solution:-- keep rates, at existing valuations, at say a third of what they are now. The ratepayers will heave a sigh of relief and the case for a wealth tax to redress the balance will have gone.

*As you see I am not against the community charge but these 2 points have Exchequer implications—  
a personal view.*

*Yours ever  
David*

MR ALEX ALLAN

Janet  


From: Sir G.Littler  
Date: 6 July 1987

c.c. Sir P.Middleton  
Mr Cassell  
Mrs Lomax  
Mr Culpin  
Mr Ilett  
Mr Neilson

#### LLOYDS BANK: JAPANESE SECURITIES LICENCE


The Chancellor will recall that - at the last minute and to our surprise - the Japanese offered three licence invitations in the latest round and included Lloyds Merchant Bank. This proved mildly embarrassing, because Lloyds were in the middle of a review of their business and contemplating cutting down their securities business. They have in fact recently decided that they do not want to take up the Japanese licence.

2. Sir Jeremy Morse has kept in close touch with us, and he and we have kept Gyohten informed, so as to avoid any suggestion of discourteous rejection of the Japanese offer. He is writing formally to Gyohten this week; I shall myself be seeing Gyohten again in Paris on Thursday and Friday and will speak to him.

3. I am confident that no offence has been taken. I do not think we can pull off the trick of substituting another British name immediately - none is really quite ready. But I shall press that we are "owed an extra name" for the next batch.

4. Our public line - only if asked - should be:

- this is a decision for Lloyds;
- we are sure the Japanese authorities, who were recently given private warning by Lloyds, accept the position;
- we look for continued satisfactory progress on Japanese licences in this field in the future.

  
(Geoffrey Littler)

SECRET

Copy No 1 of 14 Copies

FROM: A TURNBULL  
 DATE: 6 JULY 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
 Sir P Middleton  
 Sir T Burns  
 Mr F E R Butler  
 Mr Monck  
 Mr Anson  
 Mr Scholar  
 Mr Luce  
 Mr Gieve  
 Miss Walker  
 Mr Tyrie

## SURVEY BIDS

I attach a table which is our first assessment of the bids received last week. We are now going through them with divisions to agree a revised assessment of the outcome.

2. The total of bids is currently assessed at: (see table)

£ million

+7,636	+10,625	+13,685
--------	---------	---------

These figures are subject to the following notes and qualifications:

i. the figure for defence is higher than in the Secretary of State's letter as it includes a costing of his proviso that the bid should be increased in the light of any revisions to the inflation outlook. The figure in the table takes on board the increase in the GDP deflator revealed in the FSBR;

ii. the Home Secretary has given notice that he will augment his bid for prisons expenditure when the Fresh Start discussions on manpower and running costs have been completed;

iii. the social security bids are, we believe, pitched much too low, taking insufficient account of the underlying trends on take-up;

iv. the local authority current figures are derived from the figures for provision put to E(LA), grossed up on a UK basis. Again, they are substantially below what the outturn will be;

v. the employment figures include the agreed bid for the January measures plus a switch of £100 million a year from social security to reflect the ending of SB for under 18s;

vi. under the IFR timetable, the nationalised industry bids will be revised at the end of July.

3. Lying behind our pre-election assessment that increases were likely in the planning total of £4 billion and £6 billion in 1988-89 and 1989-90 were bids in these two years of £8.2 billion and £10.7 billion. The current assessment of bids of £7.6 billion and £10.6 billion is slightly lower. Programmes where bids have come out higher than expected are ODA, DTI and DES (up a massive £300-400 million). Programmes which have come out lower are Home Office/LCD (though more to come), Social Security (though underbidding), Employment, Health and Defence.

5. We are going through the bids with divisions to make an estimate of the outcome. This will be available in a few days. It would be unwise to conclude, at this stage, that lower bids will be reflected in a lower outcome - indeed, the contrary is still possible.

A TURNBULL



## SECRET

## SUMMARY OF ADDITIONAL BIDS

	1988-89	1989-90	1990-91
Ministry of Defence	551.0	815.0	954.0
FCO - Overseas Development Administration	83.0	158.1	238.6
FCO - Diplomatic, Information, Culture	-2.1	4.6	6.1
European Communities	50.0	450.0	130.0
Intervention Board for Agricultural Produce	-131.6	-94.0	18.8
Ministry of Agriculture, Fisheries and Food	36.9	49.6	42.5
Forestry Commission	6.9	11.4	10.9
Department of Trade and Industry	253.8	326.8	266.3
Export Credits Guarantee Department	-8.4	77.5	71.3
Department of Energy	27.0	34.0	37.0
Department of Employment	258.6	252.3	254.3
Department of Transport	97.0	117.0	100.0
DOE - Housing	395.0	562.0	689.0
DOE - Other Environmental Services	134.0	148.0	144.0
DOE - Property Services Agency	45.4	42.0	48.6
Home Office	75.6	60.8	104.0
Lord Chancellor's Department	36.4	38.4	82.9
Department of Education and Science	557.8	687.9	782.9
Office of Arts and Libraries	52.2	65.2	70.9
DHSS - Health and Personal Social Services	958.0	1,385.0	2,197.0
DHSS - Social Security	1,110.5	1,524.1	2,971.0
Scotland: non-block	25.1	36.7	34.4
Scottish Block	270.6	359.9	489.4
Wales: non-block	49.4	43.0	45.9
Welsh Block	129.1	174.4	234.3
Northern Ireland: non-block	18.5	32.3	60.5
Northern Irish Block	96.2	122.6	157.2
Chancellor's Departments	174.6	235.4	289.1
Other Departments	-22.6	-5.3	34.3
Nationalised Industries	927.3	1,211.7	1,237.7
IFR memo items	11.0	9.0	-28.0
Local Authority Relevant	1,370.0	1,690.0	1,910.0
<b>GRAND TOTAL</b>	<b>7,636.1</b>	<b>10,625.4</b>	<b>13,685.0</b>

## PUBLIC EXPENDITURE SURVEY

Probable additions

(£bn)

(a) Social security	1.2	1.5
(b) LA current	1.5	1.5
(c) Health	0.8	1.2
(d) Defence	0.2	0.4
(e) LA capital	0.3	0.4
(f) EC	0.1	0.4
(g) Nat Inds	0.6	0.8
(h) Other progs	<u>1.3</u>	<u>1.7</u>
	6.0	7.9
(i) Reserve	<u>(2.0)</u>	<u>(2.0)</u>
Planning Total	4.0	5.9

- (a) Social security: Higher forecast of underlying growth; higher upratings; 20% rates decision. Treasury "true" estimates of spending 2.5/4.8.
- (b) LA current: Roughly real-terms freeze on 87 LA budgets; again likely true spending much higher, possibly 2.5/3.5.
- (c) Health: Bids for £1bn plus. This outturn would allow 2% real growth.
- (d) Defence: Pretty much minimum pledged before election (bids for 0.6/0.8).
- (e) LA capital: This implies gross spending at a cash freeze on 87-88.
- (f) EC: Out of date but very uncertain.
- (g) Nat Inds: Power stations, coal etc
- (h) Other: Prisons, universities, non-LA housing, IR and C&E, science etc. Massive bids from Baker and Ridley.
- (i) Implies existing Reserves of 5.5/7.5 are cut to 3.5/5.5.

SECRET

FROM: D J L MOORE  
DATE: 7 JULY 1987

CHANCELLOR

cc: Financial Secretary  
Sir Peter Middleton  
Mr Monck  
Mr ColmanBSC:  
STRATEGIC ISSUES & PRIVATISATION

You and D'I Ministers are meeting the Prime Minister tomorrow morning to discuss Mr Clarke's minute of 6 July. The purpose is to discuss the broad approach to BSC privatisation and, as I understand it, to take the Prime Minister's mind on the Scottish problem. It is not a decisions meeting; they will be taken later in the year.

2. Mr Colman's note of 12 June gave you our views on BSC privatisation. I think the main points for this meeting are as follows.

3. The BSC Board is now strongly committed to privatisation as soon as practicable. It is essential that Ministers continue to deal with them in a way which encourages this positive attitude.

4. The test, in BSC's minds, is Ministers' attitude to capacity closures which are necessary for improved profitability. And that means what happens in Scotland.

5. The proposal is that BSC should produce in September their first evaluation of a range of options, including maintenance of a major presence in Scotland. This timetable is sensible and there is no point in pushing for anything sooner.

6. It is essential in presenting these options that BSC should be allowed to include the option which they believe to be commercially right. If it involves running down Ravenscraig and they are then overruled, they will

SECRET

not like it. But I am sure that they would resent even more any Ministerial veto on even presenting their preferred option.

7. When the first "rough cut" options come forward in September there will then be further Ministerial discussion prior to more detailed work by BSC on the favoured option or options. DTI are aiming for decisions by the end of the year.

8. But whatever the outcome - and whether or not Scotland is affected - radical and difficult decisions on capacity reductions will be necessary if BSC is to remain viable and improve its profitability. This is essential for privatisation. And we would have been pressing for it even if it were intended to detain BSC in the public sector.

9. We agree that it is right to privatise the whole of BSC. Any attempt to sell it in parts would lose the sympathy of the Board. Unlike some other Corporations, we do not need to consider break-up of BSC as a means of bringing about competition.

10. On timing you will want to bring home the importance of aiming for a sale no later than 1989. Otherwise there is a risk of BSC colliding with Water and Electricity in 1990 and onwards.

11. Our guess at proceeds is in the order of £1½ billion if there were a 100% sale. Mr Clarke refers in his paragraph 2 to the impact of tax assumptions on profit levels. We have not yet examined this. But BZW recommended that BSC should not be deprived of its substantial tax losses as part of any pre-privatisation capital reconstruction. We will need to look at the trade-offs here.

SECRET

12. Whatever decisions are taken on closures, another pre-condition for sale is a reasonably stable market in Europe. Other Community members need to be persuaded to restructure their industries (para 4).

13. The sale of Allied Steel & Wire has not yet gone ahead. But an improved offer has been made. This is acceptable to GKN but not yet to BSC. I think BSC should be allowed to exercise their commercial judgment on this.

14. In summary, my main point is the importance of handling the BSC Board with care. They are wound up for privatisation to a degree which would have been unthinkable 12-18 months ago. But they are scared that political intervention will override necessary commercial actions. (And Derek Birkin volunteered to me that your own role in getting this privatisation through will be crucial).

*DJL*

D J L MOORE

1 Alex  
RC. *my*

FROM: M V HAWTIN

DATE: 8 July 1987

CHIEF SECRETARY

cc Chancellor -  
 Sir P Middleton  
 Mr F E R Butler  
 Mr Anson  
 Mr Cassell  
 Mrs Lomax  
 Mr Turnbull  
 Mr Peretz  
 Miss Noble  
 Mr Watts  
 Mr Potter  
 Mr Perfect

*Ch*  
*This appears to be*  
*being letter coordinated*  
*now.* *AA*  
*Yes: at 10:15*  
*good.* *RC*  
*M.*

## LOCAL AUTHORITY CREATIVE ACCOUNTING

At our recent meeting to discuss DOE programmes and local authority capital expenditure, you asked for a note summarising the state of play on local authority creative accounting.

2. Attached at Annex A is a note from Mr Perfect setting out:
  - i. the forms and scale of known creative accounting devices in recent years, identifying those schemes now blocked and those still in operation;
  - ii. the list of rate-capped authorities thought to be making extensive use of creative accounting to fund gaps between their actual expenditure and allowable EL (Expenditure Level), and other non-capped authorities spending in excess of income and resorting to creative accounting.
3. You also asked about measures in preparation or in prospect for dealing both with the creative accounting devices themselves and with the authorities facing large funding gaps. This is the subject of Mr Ridley's letter to you of 26 June at Annex B, attaching an interim report by an interdepartmental Working Group on Financial Prudence which was set up following a meeting between Sir Peter Middleton, Sir Terry Heiser and the Deputy

Governor on 1 June.

4. The main task of the Group is to develop a package of measures which would encourage authorities to act prudently and provide the government with a system of "graduated response" to those authorities which persisted in courting financial disaster. The interim report sets out the various measures under consideration. Some of these require legislation, which would have to be introduced over the next two years. A sub-group is examining the scale of the creative accounting problem. Paragraphs 10-12 of the interim report set out an agreed position on the role of the Bank of England, which was a matter of contention between DOE and Treasury earlier in the year.

5. The proposals are still being developed, but the main features are as follows:

i. Prudential ratios (in particular a ratio of local authority debt to local authority income from all sources) which would be used as trigger mechanisms: once pre-set limits for these ratios were exceeded an individual local authority would face a progressively harsher borrowing regime.

ii. A central, much stronger, role for Auditors: they would monitor local authorities' performance against prudential ratios; and they would also monitor major financial transactions by the authority, with a "stop" power to prohibit what they deemed to be imprudent measures. (The Environment Secretary is likely to bring forward specific proposals on this in the next week or so.)

iii. Finding a wider definition of "borrowing" which would bring within the control system a range of creative accounting methods at present outside the net. Changes here would probably be linked with the introduction of a new local authority capital control system, on which legislation is expected in 1988-89.

iv. The "graduated response" might involve first charging

a higher rate for borrowing from the PWLB, leading through the imposition of conditions to eventual refusal of further loans and the possible withdrawal of grant. (The number of stages and relationship between triggers and responses has yet to be considered).

v. Linked to (iv), but also in the context of contingency planning for authorities on the verge of collapse, the possibility of a last minute rescue device is being considered. This would involve the appointment of an "overseer" to authorities willing to draw back from the brink of financial collapse: he would draw up a recovery plan in consultation with the local council, supported by some financial restructuring through the PWLB and possibly also with exemption from the rate-cap.

6. The approach at (iv) and (v) would have implications for the future role and operations of the PWLB. We are considering this further here, and Mrs Lomax will be reporting separately on how our thinking is developing.

7. It is too early to reach conclusions about whether this prudential regime can be made to work. But it is already clear that there are difficulties. The prudential ratios being worked up by DOE and the Audit Commission may not provide a satisfactory basis for assessing credit-worthiness; nor may they match closely the target authorities (ie the worst ratios may not be recorded by the authorities in the worst trouble). The powers intended for the Auditors may also prove difficult to apply in practice: they seem to imply close and on-going supervision of individual financial transactions, rather than the Auditors' traditional and much broader ex post examination of finances. Yet the creation of an effective prudential ratios' scheme and a stronger Auditor role are the twin pillars of the proposed regime.

8. We should be better placed to form a judgement on the prospects for the proposed prudential regime when the group



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has produced a further report at the end of this month. At that stage, we may need to look again at the scope for piecemeal blocking of particular creative accounting loopholes which still give cause for concern, notably sale and leaseback, capitalisation of housing repairs and short-term property leases.

9. In the meantime, you may like to send a brief reply to Mr Ridley's letter, welcoming the work of the Group and noting the practical difficulties to be overcome. A draft is attached.



M V HAWTIN

**CONFIDENTIAL**

**DRAFT LETTER TO:**

The Rt Hon Nicholas Ridley MP  
Secretary of State for the Environment  
2 Marsham Street  
LONDON SW1P 3EB

**A PRUDENTIAL REGIME FOR LOCAL AUTHORITIES**

Thank you for your letter of 26 June covering the interim report by the Inter-Departmental Working Group on Financial Prudence.

I was interested to read the Group's report and the discussion of the individual measures which might form part of a package to establish a prudential regime for local authorities. I recognise however that there are still serious practical issues to be overcome if an effective regime is to be developed. We should be better placed to assess the prospects once we have the Group's further report at the end of this month.

I am copying this letter to the Prime Minister, to Members of E(LA) and to Sir Robert Armstrong.

**(JOHN MAJOR)**

## Creative accounting schemes:

### A Schemes blocked

i Local authority mortgages: Local authorities were selling off mortgages to raise capital receipts. The Local Government Act 1986 requires them to obtain the consent of the mortgagees before making further sales. This effectively blocked this device (probably after several hundred million worth of mortgages were sold).

ii Finance leasing: Local authorities could acquire capital assets by leasing them without that spending counting under the capital control system. The use of this device grew rapidly; £1.6 billion worth of finance leasing was arranged in 1986-87 before secondary legislation was taken in March 1987 to close this loophole.

iii Advance purchases: When the capital control system was being tightened local authorities forestalled the changes by arranging advance purchases for future years. Around £300 million advance purchases were arranged. The Local Government Bill 1987 effectively stopped this device.

iv Deferred purchases of prescribed capital spending: Local authorities acquired assets while deferring any payments for three years or more. Around £2 billion of such facilities were arranged before the Local Government Act 1987 stopped the use of this device to avoid the capital control system.

v "Sheffield" Housing schemes: Local authorities were persuading Housing Associations to build houses for them with private finance but with the local authority managing the houses, nominating the tenants and guaranteeing to fund the deficit. The Local Government Bill 1987 includes powers to control such schemes as from February 1987.

## B Schemes not blocked

i Capitalisation of housing repairs: Housing repairs not financed by borrowing can be capitalised and treated as non-prescribed (uncontrolled) spending. The use of this loophole appears to be growing rapidly at present, to £400 million a year or more. Primary legislation would be needed to bring this spending under control.

ii Property leases of less than 20 years: can also be treated as non-prescribed capital spending. In past years no such spending has been reported. But in 1987-88 there are signs that some authorities are leasing new houses from builders on short leases. And authorities are using this loophole to help arrange sale/leaseback deals. The Secretary of State for the Environment is considering whether to close this loophole with secondary legislation at present.

iii Sale/lease back and lease/lease back deals: Manchester District Council have sold off £200 million worth of property in 1987-88 and leased it back on a short lease. They will earn interest on the capital sum to reduce net spending for RSG purposes. A further £500 million of similar deals have been discussed in the press, but there are signs that banks may not be prepared to finance them.

iv Abuse of sinking funds: Local authorities are supposed to make annual payments to cover the cost of servicing debt, and receive RSG to help them do so. Most authorities make appropriate payments into sinking funds, but a few authorities have now reduced those payments, deferring the cost of servicing debt into the future.

v Payments out of special funds are not caught by the RSG system, though payments into special funds are caught. As the RSG system was tightened, local authorities rewrote their accounts for previous years so they could draw down funds in subsequent years. Environment believe special funds have now been drawn down to £1 billion and that the scope for further abuse of this device is limited.

vi Local authority companies: Spending and borrowing by companies owned and controlled by local authorities is not controlled. Some companies have been set up specifically to avoid existing controls. D/Environment are studying these companies at present with a view

to proposing suitable controls.

vii other devices that are being used include failure to make provision for rent arrears; abuse of superannuation funds to make dubious investments (the News on Sunday is the only example we have), barter deals, parallel loans and interest swaps. These last two financial devices are probably illegal, though Haringey have used them.

### Local authorities in difficulty

Haringey\*- if the district auditor shows financing deals arranged in the last two years were illegal, the Audit Commission believe Haringey could have difficulty getting through 1987-88. Funding gap (between spending and resources) of £63 million in 1988-89.

Brent*	1988-89	Funding gap	£45 million
Camden*	1988-89	Funding gap	£63 million
Ealing	1988-89	Funding gap	£43 million
Greenwich*	1999-89	Funding gap	£40 million
Hackney*	1988-89	Funding gap	£46 million
Hammersmith and Fulham	1988-89	Funding gap	£22 million
Islington*	1988-89	Funding gap	£60 million
Lambeth*	1988-89	Funding gap	£60 million
Lewisham*	1988-89	Funding gap	£50 million
Liverpool	1988-89	Funding gap	£45 million
Manchester	1988-89	Funding gap	£57 million
Sheffield*	1988-89	Funding gap	£75 million
Southwark*	1988-89	Funding gap	£45 million
Waltham Forest	1988-89	Funding gap	£28 million
Basildon*	1988-89	Funding gap	n/a
Brighton*	1988-89	Funding gap	n/a
Newham*	1988-89	Funding gap	n/a
Tower Hamlets*	1988-89	Funding gap	n/a

Of these authorities the Audit Commission is most concerned about those authorities where the standard of advice given to members by local officials is falling eg Haringey, Brent, Lambeth and Lewisham.

\* Rate capped authorities in 1987-88



FROM: MRS R LOMAX

DATE: 8 JULY 1987

PRINCIPAL PRIVATE SECRETARY

cc PS/Economic Secretary  
Sir P Middleton  
Mr Cassell  
Miss Noble  
Mr Board

HILL SAMUEL

At Sir Peter Middleton's meeting this morning the Deputy Governor reported that Hill Samuel will be announcing this afternoon that they are in discussions with UBS about a possible takeover; that the Chief Executive, Richard Lloyd, disagrees with this course, and has therefore resigned; and that Sir R Clark will temporarily act as both Chief Executive and Chairman. There is to be an AGM on Friday. It was not quite clear whether UBS will be mentioned by name this afternoon: but it will be made clear that Hill Samuel are not about to do a deal with Australians.

2. Sir Brian Hayes said that the Secretary of State is expected to reach a view about the case for a Section 447 Companies Act investigation very shortly - probably tomorrow evening. In general terms, Lord Young believes that Guinness has taught the City a great lesson, and that there is a limit to the amount of digging into pre-Guinness cases that it was sensible for the Department to do; but there will still be a need to act against obvious illegalities. The Deputy Governor has written to Lord Young saying much the same thing: but it is not clear what this attitude will imply in the present case.

3. The Deputy Governor confirmed that Sir R Clark has already warned UBS about the possibility of a DTI enquiry.

RL.

RACHEL LOMAX

MINUTE SHEET:

No.....

File No..... *ppp*

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Mr R B Saunders  
H M Treasury

PPS  
cc Mr Cassell  
Mrs Lomax

*Excellent!  
Just what we need  
was asked for*

MIDLAND BANK

You reported in your minute of 3rd July Sir Peter Middleton's question on the extent to which the decisions taken in the Midland Bank case would tie the Government's hands on the use on the reciprocity provisions in the future.

I do not think this will cause a problem.. The reciprocity provisions were from the outset designed to be used selectively and to allow the Government to move against one country rather than another and one institution rather than another. We specifically asked Treasury Counsel, in March this year, whether he would be content to defend what seemed to be the most awkward situation - where the Secretary of State or Treasury had singled out one eg Japanese firm when there were several others of the same class operating in the UK. Treasury Counsel advised that he saw no difficulty with this provided that the power was not used arbitrarily. He pointed out that the Treasury can only use the reciprocity powers if they believe that it is in the national interest to do so. Inaction in a case where they have bona fide formed the view that use of the powers is not in the national interest should not prejudice a case where they form a different view.

*J L Wheldon*  
Miss J L Wheldon  
8th July 1987

Tel: 210-3049

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OVER



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COMMERCIAL IN CONFIDENCE

NOTE OF A MEETING HELD IN SIR PETER MIDDLETON'S ROOM, HMT,  
ON WEDNESDAY, 8 JULY 1987

Present:	Sir Peter Middleton	)	
	Mr Cassell	)	
	Mrs Lomax	)	HMT
	Miss Noble	)	
	Sir Brian Hayes	)	
	Mr Mountfield	)	DTI
	Deputy Governor	)	
	Mr Walker	)	Bank

*No X, what are  
to explain down to  
remember new people  
s/w mat on the  
hook?*

**CITY ISSUES**

**Financial Regulation: Timetable**

Sir Brian Hayes said that the timetable for full introduction of the financial services regulatory framework now appeared certain to slip. Both the SIB and SROs had taken longer than expected to draw up their rules, and the OPT needed more time to go through the draft rule books of the SROs. Missing the target of end-1987 would have implications for personal pensions, about which DTI would be writing shortly. It was not clear how much slippage there would be, but it was hoped to keep it to three months.

2. In discussion, it was noted that there was no scope for accelerating the timetable by granting additional resources to OPT. It was agreed that it would be preferable to hold up any announcement of a new target date until it was clear that it could be met with the system in good shape.

3. The Deputy Governor said that the Bank would be publishing its revised proposals on regulation of the wholesale money markets about a week after the SIB had published its rules later this month. In a brief discussion, it was agreed that the Treasury should check whether the Director General of Fair Trading would expect to approve the Bank's rules under the Financial Services Act exemption.

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COMMERCIAL IN CONFIDENCE

4. Mrs Lomax reported that most of the provisions of the Banking Act would be brought into effect on 1 October. There was an outstanding difficulty on large exposures, which might delay implementation of this provision beyond January 1988. Excellent progress had been made in particular on the relationship between auditors and supervisors.

Capital Adequacy

5. Mr Walker said that the gap between the Bank and the SIB had narrowed considerably. While several differences remained in particular areas, the two systems yielded similar results overall. But there were marked differences of approach, reflecting the different standpoints of the Bank and the SIB. More specifically, the Bank thought that the SIB's calculus put too much weight on the expenses ratio and too little on position risk, particularly open positions. The Bank thought it was right to put heavy requirements onto unsophisticated operators taking open positions, through high position risk requirements offset by generous allowance for hedging. The Bank's judgment, however, was that the differences did not raise fundamental issues of principle. While it was a pity that it had not been possible to agree a common set of rules, the priority now was to implement them. It would be important in public presentation to play down the differences so far as possible.

6. In discussion, several points were noted which could be used to explain the different approaches. For firms registered under the financial services legislation, there existed statutory requirements for compensation funds. Arguably, in the wholesale and gilts markets, individual failures could have greater systemic consequences than elsewhere - although there was no implication that the Government would be prepared to underwrite systemic risks. The different regulatory approaches of the Bank and SIB were also relevant - the consequences of breaching the SIB rules

would be immediate cessation of trading, but the reaction to breaching a Bank of England limit would be less drastic. It was noteworthy that a recent survey of firms in the United States indicated that they all maintained their key ratios well above the SEC limits; judged by this standard, the Bank's weights were not unduly onerous. Finally, neither set of rules was immutable, and the bases could be adjusted in the light of experience.

7. Summing up, Sir Peter Middleton said that it was a pity that complete agreement had not been reached. But neither side now regarded the other's basis as prudentially unsound, and it was clearly right to get on with implementing the new rules. Presentation would need to be thought about carefully. A line to take should be worked out in advance jointly by Treasury, Bank, DTI and SIB.

#### **Lead regulator arrangements**

8. The Deputy Governor reported that good progress had been made in the last few weeks. Following general agreement between Mr Galpin and Sir Kenneth Berrill, proposals were being worked up between the Bank and SIB at a technical level. Sir Kenneth Berrill was about to write formally to the Bank and thereafter SIB could produce a memorandum of understanding on lead monitoring of conglomerate houses. This would be for publication.

9. Sir Peter Middleton commented that this was welcome news. He hoped the Mountfield Group would keep developments under close review.

#### **Current cases**

10. Sir Brian Hayes said that the outcome of the Collier case had been most disappointing. It gave no encouragement for the other cases currently under investigation. All comment that he had heard - including from the City - considered the sentence inadequate. The Deputy Governor agreed.

11. Sir Brian Hayes said that the next public development in the Guinness affair was likely to be criminal charges, although probably not until October. This would mean that the Inspectors' Report could not be published until much later.

12. Mr Walker said that the Takeover Panel were investigating statements made to them at the time of the Guinness takeover of Distillers. They considered that there was already sufficient on the public record to enable them to deliver a public censure in advance of the Inspectors' Report. This would probably increase the likelihood of litigation by Argyll and other Distillers' shareholders. Mr Mountfield said that DTI had been worried that litigation in this case might undermine the continued non-statutory status of the Panel.

13. Sir Brian Hayes said that DTI would be going to Lord Young shortly on other possible enquiries - AE/Hill Samuel and Burton/Debenhams. The Secretary of State's general view was that the lessons of the Guinness affair were well taken now, so that there was a limit to the usefulness of fresh enquiries into marginal pre-Guinness cases. But each case would be looked at on its merits.

14. The Deputy Governor said he agreed with this approach. He said that Hill Samuel would be announcing shortly that they were in discussion with a possible bidder. The Chief Executive disagreed with the takeover proposal, and would be resigning; Sir Robert Clarke would take over temporarily as both Chairman and Chief Executive. Sir Robert had warned the bidder about the possibility of a DTI enquiry.

15. The Deputy Governor said that the report into Standard Chartered under Section 17 of the Banking Act was still expected in October.

16. Sir Brian Hayes said that the investigations in the Lonrho and Coutts cases continued. DTI would circulate a note before future meetings setting out the present position in current cases.

**Contractors, criminal activity and financial institutions**

17. Introducing the Treasury paper, Mrs Lomax said that this had been a difficult exercise, since the financial supervisors concerned were subject to statutory confidentiality requirements. For most purposes, it could be assumed that Government Departments could reasonably do business with institutions holding a current authorisation. But for a minority of purposes - for example, export credit, foreign currency borrowing and privatisation - the good name of the Government would be lent to the institution so that more thorough checking by Departments was desirable. It had been concluded that appropriate questions should be included in the standard enquiries sent to financial institutions being considered for appointments of this sort, taking advantage of the freedom that the legislation gave supervisors to disclose information with the consent of the institution concerned.

18. In a brief discussion, it was agreed that the proposals in the paper were right. The Treasury would consult other Departments on the basis of an edited version of the paper.

**Serious Fraud Office**

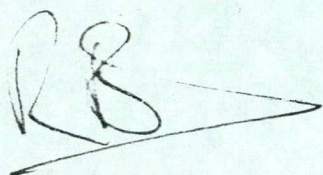
19. In discussion, it was noted that the procedures for making senior appointments to the SFO had not worked well. In particular, it was essential to ensure that a senior accountant was appointed. DTI were also seeing if a secondment from the Insolvency Service was possible. It was agreed that Sir Peter Middleton would write to the Director.

**Stock Exchange settlement procedures**

20. Sir Brian Hayes noted that settlement problems at the Stock Exchange appeared to be getting worse. The Deputy Governor said that this created problems not just for the Stock Exchange but for company registrars as well. The Bank would be making sure that the top management of the clearing banks - on whom much of the burden fell - were aware of the problem.

**Money brokers**

21. The Deputy Governor reported that money brokers were increasingly taking positions in equities as well as in gilt-edged stock, and this was prompting the Bank to review the capital requirements applied to them.



R B SAUNDERS

9 July 1987

**Distribution:**

Those present  
Principal Private Secretary  
PS/Economic Secretary  
Sir G Littler  
Mr Ilett

## MANAGEMENT IN CONFIDENCE

FROM: T J BURR  
9 July 1987

CHIEF SECRETARY

cc Chancellor  
Paymaster  
General  
Mr F E R Butler  
Mr Anson  
Mr Gilmore  
Mr Luce  
Mr Scholar  
Mrs Strachan  
Mr Turnbull  
Mr C Allan  
Mr Gieve  
Mr Gray  
Mr Pratt  
Mr Cropper  
Mr Tyrie

## DES RUNNING COSTS

Among his Survey bids, Mr Baker has proposed a major increase in his departmental running costs, which we will be examining over the coming weeks and you will need to discuss with him in the Survey bilaterals after the summer break. But some of his case for additional resources rests on the additional tasks associated with the education reforms which the Government is undertaking. The necessary legislation will be introduced in the autumn, and work on both the policy and the legislation is already moving into high gear. Mr Baker accordingly argues, in his letter of 17 June, that additional running costs provision is needed immediately, in the current year.

2. This submission recommends that your reply should offer only limited movement. There will then almost certainly need to be a meeting with Mr Baker in order to reach a settlement.

**Background**

3. DES made a similar in-year bid at this stage last year. The reasons for that bid stemmed largely from their failure to give sufficient attention to running costs issues in the 1985 Survey. They found that they had insufficient provision for pay, in particular; but superimposed on that was Mr Baker's

## MANAGEMENT IN CONFIDENCE

wish to give his department a higher profile and increase its capacity for new policy initiatives. In response to a bid of £1.7 million and 90 additional staff, your predecessor ultimately agreed additional running costs of £1 million (to be absorbed within the overall DES programme) and 30 additional staff. For subsequent years (including the current year) increases of £3 million a year and 68 additional staff were agreed in the Survey.

4. In spite of having already received these additions, the DES case this year is rather stronger than last year. Instead of being a generalised bid to relieve pressure on the department, this one is to a large extent related to the forthcoming major Education Bill, and policies embodied in it. There is no doubt that the department has a considerable task to tackle here which will continue into implementation of the reforms after the Bill is out of the way. Since the policies have largely been developed since the last Survey, they could not have been taken into account in setting the DES running cost limit for this year. And there is an important Treasury interest in ensuring that these initiatives are adequately planned and controlled.

### The bid

5. Mr Baker seeks an addition of £1.3 million to his department's running costs limit for 1987-88 of £58.3 million. Only part of that is the cost of the additional staff listed in the table attached to his letter. The breakdown of the bid is as follows:

	£
Staff and staff-related	350,000
Non-staff	960,000
of which	
National curriculum working groups	160,000
Publicity	500,000
Accommodation	300,000

We have discussed the bid with DES in some detail. The following



## MANAGEMENT IN CONFIDENCE

paragraphs deal with each of the above elements in turn.

### Staff

6. We have established that the figure of £350,000 is a broadly accurate costing for the staff proposed in the attachment to Mr Baker's letter, given the proposed timing of recruitment; and we have confirmed with the Management and Personnel Office that DES should be able to secure the additional staff (if agreed) on the planned timescale. Within the £350,000, pay accounts for some £285,000, and non-pay (travelling and subsistence, stationery, etc for some £65,000. The cost of these staff in a full year would be nearly £1 million.

7. We have examined whether the additional staff are all necessary, and whether even those that are necessary could be found from redeployment from within the Department. We do not believe that they can all be said to be necessary. In the case of those for special educational needs and for the Interim Advisory Committee on Teachers' Pay, it has not yet been agreed as a matter of policy that these responsibilities should fall on DES. Microelectronics for schools is nothing to do with the proposed education reforms in the Bill, and is a typical case of a new policy initiative which a Department should support, if at all, by redeploying resources. DES have also acknowledged that a proposed head of internal audit for the Universities Funding Council and the Polytechnics and Colleges Funding Council should be a grade 7 rather than a grade 5, which saves a personal secretary post. They also seem to have endowed the national curriculum working groups with an excessive number of staff at HEO level. For all these reasons we think that the requirement is more like 40 additional posts than the 52 which Mr Baker is requesting. That would imply a cost of about £250,000.

8. As regards how far these staff could be found within existing DES numbers, it is relevant that the DES record on implementing staff inspection reports is poor. Last year DES staff inspectors, in spite of being among the least efficient in Whitehall, identified savings of 23 posts. To date, only 6 of these savings have been implemented. Even if it does not

## MANAGEMENT IN CONFIDENCE

prove possible to accept all the recommendations, that would suggest that DES could find a further 10 posts if the will were there. We would not go further and argue that the remaining 30 additional posts should be covered by redeployment. That ground was fairly thoroughly traversed last year, and we have probably already derived as much mileage from it as we can expect.

9. We question whether any additional running cost provision is needed in respect of these additional staff. Last year, in spite of having pressed so vigorously for the addition of £1 million which they eventually secured, DES actually underspent their running costs by £600,000. A major reason for this was that staff on long term secondment from DES to the British Library and the British Academy transferred permanently to the Library, and thus went off DES books. (The resulting saving affected running costs, which are normally measured gross, though it did not yield a financial saving, because DES also lost reimbursement of the relevant staff costs from these bodies.) This year they have allocated £1 million for the cost of seconded staff; but actual expenditure last year was only £760,000. There could well be a saving of £250,000 in the current year on this score which, in terms of running costs, would more than cover all the additional staff that seem to be necessary.

10. We therefore conclude that you need only offer Mr Baker 30 additional staff; and no additional running costs provision in respect of staff costs.

### National Curriculum Working Groups

11. This is undoubtedly an additional requirement. We have looked carefully at the cost of £160,000, and do not believe that it can be significantly reduced. We therefore think that this should be included in any offer to Mr Baker, although on its own it is scarcely large enough to justify changing the running cost limit.

### Publicity

12. This is the largest component in Mr Baker's bid; but the case

## MANAGEMENT IN CONFIDENCE

deployed for it is virtually non-existent. Only the word 'publicity' is mentioned in Mr Baker's letter, and we have not been able to get much more out of his Department. They say that Mr Baker "wishes to see additional publicity expenditure, especially to inform parents about the Government's emerging policies"; and they add that the bid will enable them "to consider" mounting a further teacher recruitment campaign in Spring 1988. The Department already has provision of over £1 million for publicity in the current year, of which less than half is allocated to major projects. The rest is allocated to some 20 'smaller items', which we believe to be the kind of glossy broadsheets to which Mr Baker attaches considerable importance. There would seem to be ample scope here for redirecting effort towards explaining the major education reforms. We see no need, therefore, to offer Mr Baker anything on publicity at this stage, although Mr Baker lays great emphasis on presentation and it may prove tactically useful to offer him some concession at a later stage.

### Accommodation

13. The bid is to provide accommodation for 80 staff. This is geared to a PES bid for about 125 staff from 1988-89 onwards, rather than to the 52 staff for which Mr Baker is bidding in the current year. It is therefore difficult to consider without also considering the PES bid, which will be a matter for the Survey. It is tempting, therefore, to suggest that it should simply be deferred for consideration in the Survey, which would probably delay the availability of the accommodation by about 3 months.

14. But we are inclined to resist the temptation. Mr Baker's response would probably be to insist that his bid for 1988-89 and subsequent years should be considered forthwith, whereas it is better from our point of view to leave it in the Survey where it will be in competition with his other large bids. Moreover the three-month delay, while perhaps not as intolerable as DES suggest, would come at a time when the department was in any case under heavy pressure. A better tactic would be to indicate that you do not rule out this element of the bid,

MANAGEMENT IN CONFIDENCE

but that you do not think it worth considering precise figures until a measure of agreement has been reached on the additional manpower requirement in the current year. Agreement on that would provide a fairly clear pointer to what is likely to be negotiable in the Survey for later years, and should enable us to judge the appropriate amount of accommodation more precisely and without undue prejudice to your negotiating position on DES manpower and running costs in the Survey.

15. In fact we think that DES have already prejudiced their position by seeking accommodation for only 80 staff. In discussion with them, our impression has been that the reason for this is that they are not seriously expecting to get more than 80 of the 125 or so that Mr Baker has asked for.

**Public Expenditure Implications**

16. Our argument that additional staff costs can be offset by savings on the cost of seconded staff applies to gross running costs. It does not apply to public expenditure, because DES are also losing reimbursement for the cost of seconded staff. Thus our proposals imply a public expenditure cost of say £200,000 for staff plus the £160,000 for the National Curriculum Working Groups, giving a total of less than £0.4 million. We would hardly want to give provision from the Reserve for such a small amount (although there are already a number of other items which DES will have to absorb this year, and they are probably approaching the limit of what they can realistically expect to absorb). Mr Baker does not explicitly make a claim on the Reserve in his letter, and the draft reply does not imply that a claim would be conceded. We can resolve this aspect at a later stage, once the likely size of a settlement with Mr Baker is clearer.

17. I attach a draft reply, which has been cleared with GEP2 and RCM.



T J BURR

MANAGEMENT IN CONFIDENCE

1670/18

DRAFT LETTER

FROM: CHIEF SECRETARY

TO : SECRETARY OF STATE FOR EDUCATION AND SCIENCE

Copy: As indicated

DES RUNNING COSTS

Thank you for your letter of 17 June, which my officials have discussed in detail with yours.

2. Your letter gives no breakdown of your £1.3 million bid for the current year. I understand that £½ million is accounted for by publicity. I can see that limited and well targetted information work could have a part to play in explaining our policies during the passage of the Education Bill. But I would have thought that this could be funded from within the provision of over £1 million which your department already has for publicity in the current year, if necessary by adjusting priorities. I am not persuaded that there is a case for any additional provision here.

3. As regards staff, I am prepared to contemplate some additional provision for work related to the Education Bill and the policies which underlie it, which will undoubtedly represent a substantial additional task for your Department. But the list attached to your letter includes staff for work which is not directly connected with the Bill, and also for special educational needs and the Interim Advisory Committee on Teachers' Pay where it

## MANAGEMENT IN CONFIDENCE

has not yet been agreed as a matter of policy that additional responsibility should fall on your Department. As regards scope for offsetting savings, your Department underspent its running costs provision by £0.6 million last year, partly as a result of savings on staff seconded out of the Department which seem likely also to arise in the current year. As at 1 April your Department had also implemented only 6 of the 23 staff savings which were identified by your staff inspectors last year. These considerations lead me to conclude that you could manage with an addition of 30 staff in the current year, the running cost implications of which could be covered by the savings which I have indicated.

4. I accept the need for expenditure of £160,000 in respect of the National Curriculum Working Groups, though on its own that would hardly justify an increase in your running costs limit.

5. As regards accommodation, your bid is related not to the staff bid for the current year, but to your Survey bid for the next and subsequent years. I do not on that account suggest that we should defer consideration to the Survey. But I think that we must settle the staff requirement for the current year at least before we try to take a view on the amount of accommodation which is likely to be required.

6. I am copying this letter to Richard Luce.



CH/EXCHEQUER	
REC.	01 JUL 1987 ✓ 1/7
ACTION	MR HALLIGAN
COPIES TO	CST
	SIR P MIDDLETON MR FER BUTLER
	MR WEMP
	MR GILMORE
	MR HAWTIN
	MR GILHOLLY
	MR BURR
	MR POTTER

MR TRUMAN MR TYRLE

PRIME MINISTER

## HIGHER EDUCATION PAY AND CONDITIONS

I attach a more detailed paper which examines alternative arrangements for determining pay and conditions of non-clinical academic staff in higher education, including both the university and the new polytechnics and colleges sectors. The paper has been prepared by my officials in the light of views expressed at a meeting you chaired on 25 February. It has been the subject of inter-Departmental consultation at official level.

2. I would like to see a move towards pay bargaining at the level of each institution. But it would not be practicable to enforce this. For the time being the institutions would certainly go for some kind of collective machinery. This being so, most of the Departments concerned broadly agree that the most sensible approach in both sectors is non-statutory national collective bargaining machinery covering both pay and conditions, with my Department having a direct involvement on the management side of the new polytechnics and colleges sector.

3. For this new sector I envisage a role in the early years for the Department in helping to bring together the diverse employer interests of the polytechnics and the different groups of colleges. My representatives should also be able to contribute some expertise on negotiating matters to a management side which will have had no previous experience of negotiation and will not have a counterpart to the well-established secretariat which services the universities' Committee of Vice-Chancellors and Principals (CVCP). That said, I see no need for my Department's formal involvement to consist

SS DES  
to  
PM  
1/7

of more than perhaps a couple of voting seats. The influence of those seats, when combined with direct control of the purse strings, will be considerable. We should review the need for a continuing Departmental involvement after the first 2 or 3 years.

4. On the university side, there is a long established tradition of independent pay bargaining. It is also the case that the CVCP, assisted by funding constraints, has been quite successful in recent years in keeping university settlements down. However, the present Committee A/Committee B machinery is no longer appropriate and I envisage for the future a single committee on the lines of Committee A which brings together the employers and the Association of University Teachers.

5. Treasury officials have suggested a dominant position for DES representatives on the management sides of both sectors. This would require the DES to have a veto on all aspects of offers by the management side. It would have to be imposed by legislation against strong opposition at least in the case of the universities. It would also conflict with the Government's intention of giving the polytechnics and colleges responsibility for managing their own affairs and would bring with it a Ministerial responsibility for the details of pay and conditions of service in higher education.

6. We are committed by the Higher Education White Paper (Cm 114) to consult both sectors about future negotiating arrangements. There is some flexibility about the timing of these consultations which ought to take place in parallel. If my approach is accepted the new arrangements would not need to be reflected in the forthcoming Education Bill since no statutory provisions would be required. The present voluntary arrangements for the universities could remain in place for the time being; and those recently established for local authority further and higher education would operate until the new polytechnics and colleges sector comes into being



probably in 1989. On the other hand we should not delay unnecessarily because there is now an expectation that the Government will consult and a risk that continued uncertainty will further unsettle the staff in the polytechnics and colleges who do not know what the future holds for their pay and conditions of service arrangements. I should like to initiate the consultations before the summer holidays.

7. I should be glad to know that colleagues are content with my proposals, and am of course ready for a collective discussion if others should wish it.

8. I am copying this minute to other members of E(A), to the Social Services Secretary, and to Sir Robert Armstrong.



KB  
Department of Education and Science

| July 1987

3

**CONFIDENTIAL**

**HIGHER EDUCATION PAY AND CONDITIONS**

**Note by the Department of Education and Science**

**INTRODUCTION**

1. The purpose of this paper is to consider future arrangements for the determination of pay of non-clinical academic and academic-related staff in the higher education (HE) sector in England (and Scottish, Welsh and N Ireland universities) in the light of two developments announced in the White Paper "Higher Education: Meeting the Challenge" (Cm 114):

- Government acceptance of the Croham Report recommendation that the existing negotiating arrangements for university academic salaries be re-examined;
- the Government's intention to set up a new polytechnics and colleges sector in England, comprising the polytechnics, certain other colleges transferred from local government, and existing grant-aided institutions.

**CURRENT ARRANGEMENTS FOR PAY DETERMINATION**

**Universities**

2. The formal machinery for negotiating the pay of university academic staff - other than clinical academics - and the pay of academic-related staff involves two committees. The first stage, known as Committee A, involves the Association of University Teachers (AUT) and the University Authorities Panel (AUP), the employers' negotiating team appointed by the Committee of Vice Chancellors and Principals (CVCP). An independent Chairman is appointed by agreement of both sides - Sir Pat Lowry has recently been appointed to succeed Sir Alexander Johnston, who has been Chairman since the present arrangements were established. The Chairman's task is to ensure that a single proposal goes forward to the Government, if necessary by formulating that proposal himself. Such a proposal is binding on both the AUT and the AUP. The proposal is then put to the Government in the second committee, known as Committee

2. This consists of the independent Chairman of Committee A together with representatives of the universities and of the AUT on the one hand, and DES on the other. The Chairman of Committee B is appointed by the Secretary of State, and is the Deputy Secretary responsible for pay matters in the DES.

3. The arrangement is voluntary and dependent for its successful operation on the goodwill of the parties involved. That goodwill is less apparent now than before and all sides have concerns over the appropriateness of the machinery. Indeed, the fact that Committee B met only twice in 1986, both times in non-negotiating mode, and that it did not meet at all during 1983-85, is indicative of the fragility of the formal structure.

4. There is no collective arrangement for negotiating conditions of service for university staff. These have for the most part been settled on a local basis with each institution. Some strains have, however, appeared following the recently agreed universities pay restructuring, which included some conditions of service elements alongside the substantial general increase in pay. The AUT would like more central negotiation on conditions but individual universities are reluctant to cede this to the CVCP.

#### Local authority higher education

5. Before the 1987 Teachers' Pay and Conditions Act, the pay of all teachers in the local authority sector of further education (FE) was determined under the Burnham arrangements set up by the 1965 Remuneration of Teachers Act. The Burnham FE Committee consisted of local authority employer and teachers' union representatives, and an independent chairman. The National Association of Teachers in Further and Higher Education (NATFHE) dominated the teachers' side. The DES had 2 voting seats. Conditions of service were determined in a parallel voluntary body, the National Joint Council for Further Education (NJC). The differences between the composition of the NJC and Burnham FE were that on the NJC the Association of Polytechnic Teachers (APT) had no seat and the DES had only observer status. In recent years negotiations on both pay and conditions of service have in practice taken place in the NJC, with ratification through the Burnham machinery an empty formality.

6. The 1987 Act repealed the Burnham arrangement, and in relation to further education left the employers and unions free to agree their own arrangements. In practice this makes little real difference. The NJC has formally become

the body responsible for negotiations on pay as well as conditions of service. The one difference is that under the Act a seat on the NJC has had to be found for the APT.

### Grant-aided institutions

7. The colleges, other than Cranfield and the Royal College of Art, are bound as a condition of the grant they receive from the DES to pay their academic staff the established FE rates, and they also follow the conditions of service set in the NJC. They have no negotiating arrangements of their own, and have only observer status on the NJC.

### Non-Academic Pay

8. The Government is not involved in the arrangements for determining the pay and conditions of non-academic staff in either the universities or the polytechnics and colleges. So far as the local authority institutions are concerned, the non-academic staff are treated like other local authority white collar and manual workers (in the negotiation of whose pay Government Departments play no direct part). The grant aided institutions follow the local authority sector and in some cases the NHS. So far as staff in universities other than academic and academic-related are concerned, there is a mixture of local and national bargaining, with the pattern effectively determined by what happens in local authorities. Arrangements for the pay of non-academics are not considered further in this paper; it may be appropriate at a later stage to consider whether the existing links with local authority pay bargaining could and should be weakened.

### NEW ARRANGEMENTS FOR PAY DETERMINATION

9. Public funding for the new polytechnics and colleges sector will flow through the Polytechnics and Colleges Funding Council (PCFC). Funds will be paid direct by central Government to the PCFC for allocation by that body to the institutions on a contract basis. There will be few other sources of finance, though institutions will be able to earn money from external sources for research and other activities - perhaps amounting to 5 per cent of total income. That will not make a significant reduction in the extent to which the new sector will be dependent on Government for financing its main staff pay bill.

10. Thus there will in future be financing arrangements for the polytechnics and colleges sector which are similar to those for the university sector. It follows that one possibility to be considered is a single set of pay-determining arrangements covering all of higher education in England (and the rest of the UK universities).

#### **A SINGLE ARRANGEMENT**

11. A single forum for determining pay across the whole of higher education might tend over time to make the university and polytechnic sectors more like each other, whereas the Government's higher education policies rest on continuing distinctions between their functions and the levels of public funding they receive. There would no doubt be pressure from the polytechnics and colleges for pay parity between the two sectors, which would be expensive (university lecturers would continue to have a pay lead of some 10-16 per cent, according to grade, over their counterparts in the polytechnics and colleges if the latter accepted the FE employers' current offer). More immediately the two interests on each side of such an arrangement would be unlikely to blend well. The Committee of Directors of Polytechnics (CDP) would be bent on achieving parity of pay and resources with the universities, an objective which the CVCP would fear could only be achieved at the universities' expense. And the AUT and NATFHE are most unlikely bedfellows - the latter would strive for parity and the former for continuing superiority.

12. Thus unified machinery could probably only be achieved through imposition, and there are no clear advantages in a single collective bargaining forum which would justify imposing it. The conclusion must be that there will have to be separate pay determining arrangements for the university sector and for the polytechnics and colleges sector.

#### **NO GOVERNMENT INVOLVEMENT**

13. Separate pay arrangements could be achieved by leaving all the institutions - universities, polytechnics and colleges - free to determine pay as they wished. A possible but unlikely outcome would be a network of institution-based arrangements, which would have the benefit of being sensitive to local market conditions. Against that it can be argued that the market for most higher education lecturers is national, if not international, and that locally differentiated pay structures

ould obstruct desirable labour mobility.

14. In practice the outcome of leaving it to the institutions to sort themselves out would be voluntary collective bargaining on a national scale. Failure to join together in this way would put the institutions at a considerable disadvantage to the nationally organised unions. The universities would continue to group together, as would the polytechnics who would probably but not certainly take the colleges under their wing. The overall result could well prove unsatisfactory, and there would be no clear channel through which Government views and objectives could make themselves felt in relation to the new sector.

### UNIVERSITY SECTOR

15. There are three options: no change; the abolition of Committee B and the retention of something like the present Committee A; and the addition of a Government presence to Committee A. It has already been noted that the Committee A/Committee B structure is unlikely to survive, with Committee B effectively redundant (as it has been since the introduction of cash planning into the arrangements for the universities).

16. The abolition of Committee B and the retention of Committee A would probably be acceptable to the CVCP. The AUT's preference is less clear, though they could hardly resist this kind of arrangement if Government and CVCP were for it. Government influence would be exercised mainly through control of the purse strings, to which conditions as to the kind of pay structure and conditions of service Government might want could be attached. Occasional informal discussion between DES and one or other or both of the two sides would no doubt be needed so as to ensure a clear understanding of the Government's position; in practice this is broadly what has prevailed for the last few years.

17. The alternative would be a negotiating committee with a direct Government involvement on the management side - Committee A with DES representation. While the AUT might welcome the opportunity this would offer to bargain directly with the Government, the CVCP would not welcome a Government presence on the management side. The CVCP see negotiation with their employees as their job. And it is a job which they have done fairly well. A DES presence is unlikely to add to the influence which the Department already wields through

its control of funding, especially if it is unwelcome to the CVCP; and there would be a risk that it might force the CVCP and the AUT together in confronting the Government with demands for more money. In practice purse string control has been effective in recent years in delivering acceptable pay settlements for the university sector in Committee A.

#### **POLYTECHNICS AND COLLEGES SECTOR**

18. The new polytechnics and colleges sector will be different from the university sector. The employers will consist of three disparate groups, none of which has any experience of pay negotiation. The CDP will be the dominant force on the employer side, and its approach will be coloured by a wish for parity of treatment with the university sector. The inexperience and diversity of interest on the employer side argue for a major role for the DES on the management side in the early years. Provided good working relationships can be established and maintained it would enable the DES representatives to bring together the different interests of the polytechnics and the colleges. It would also permit the Government's position to be kept clearly in the minds of both the management side and the unions at crucial points in the negotiating process.

19. The above considerations suggest that the preferred outcome from the Government point of view would be a single negotiating body consisting of the employers, the unions, and the DES, possibly with an independent chairman. The need for a continuing DES presence could be reviewed after the first 2 or 3 years. Such an arrangement seems most likely to lead to pay and conditions supporting the flexible and efficient provision of higher education that the Government wants. It would not be like Burnham, because the "management side" would be almost wholly dependent on the Government for finance to pay for settlements reached; and on the unions' side there is nothing like the conflicts of view and interests which made the sensible operation of the schoolteachers committee impossible.

20. The formal strength of the DES presence has to be determined. A minority voting presence, when combined with control of the purse strings, would give the Department's representatives a sufficiently powerful voice on the management side. Because the Government would be the only real source of finance there

would be no need for a veto or a weighted vote.

21. Given the DES presence on the NJC which now sets pay and conditions in polytechnics and colleges, it seems unlikely that the two sides would resist DES involvement in new machinery as proposed above.

22. Arrangements of this kind could be secured in two ways: by legislation or as a condition of grant. As legislation is required to set up the new sector there would be no difficulty in using that legislation to establish statutory arrangements for pay determination. The disadvantage of statutory backing is that it would give some permanence and inflexibility into a particular set of arrangements which might not be appropriate in the longer term.

23. The alternative of requiring a particular arrangement as a condition of funding to the institutions is therefore attractive. The Secretary of State will have a reserve power to give directions to the PCFC and the latter will be required to draw up Financial Memoranda governing its financial relationship with each of the institutions. It should therefore be possible to include in those Memoranda as a condition of funding the requirement that the pay and conditions of its academic staff should be determined in accordance with arrangements to be agreed with the Government.

#### **THE REGIONAL DIMENSION**

24. The new polytechnics and colleges sector will be confined to England. For the present at least the Government intends no corresponding change for the Welsh institutions outside the universities which provide higher education. A Welsh local authority will continue to have a direct employer responsibility for the single Welsh polytechnic. The Welsh Office will aim to ensure that pay and conditions in that polytechnic replicate these in the English polytechnic sector.

25. The Government intends however to make provision in the forthcoming legislation for the future application of the new arrangements in Wales should this seem desirable at a later stage.

26. The non-university sector of higher education in Scotland is mainly funded by SED, and consists of colleges of education and polytechnic equivalents known as central institutions. For pay determination purposes the statutory



Scottish Joint National Council (Further Education) covers this group as well as the local authority colleges. In practice the local authority FE interests dominate, and the question may arise whether the present statutory SJNC (FE) should continue to cover Scottish AFE. The English proposals for the polytechnics and colleges sector will provide a precedent for the establishment of separate negotiating machinery for the colleges of education and the central institutions. The legislation required to set up the new polytechnics and colleges sector in England might provide a suitable opportunity to make the necessary changes in the current Scottish statutory arrangements.

### **CONSULTATION**

27. There is a commitment in the Higher Education White Paper (Cm 114) to consult both sectors about future negotiating arrangements. There is some flexibility about the timing of these consultations which ought to take place in parallel. No provisions would need to be included in the forthcoming Education Bill unless statutory machinery was required; no such provisions would be needed if the recommendations in this paper were accepted. The present voluntary arrangements for the universities can remain in place for the time being; and those recently established for local authority further and higher education will have to operate until the new polytechnics and colleges sector comes into being probably in 1989. On the other hand there should be no unnecessary delay because there is now an expectation that the Government will consult and a risk that continued uncertainty will further unsettle the staff in the polytechnics and colleges. It would be appropriate to initiate the consultations before the summer holidays.

### **CONCLUSION**

28. The following issues need to be considered:

- i. the case for a single set of arrangements covering all of higher education. The paper argues that this would be unwelcome to some of the key parties involved and would not further the Government's policies for higher education (paras 11-12);
- ii. the case for leaving the institutions free to set up their own arrangements. The paper argues that the likely outcome for the polytechnics and colleges of voluntary collective bargaining

on a national scale with no direct Government involvement would not be satisfactory (paras 13-14);

- iii. the appropriate arrangements for the university sector. The paper envisages a single committee similar to the existing Committee A (paras 15-17);
- iv. the appropriate arrangements for the new polytechnics and colleges sector. The paper points towards a single negotiating body with the DES in membership of the management side in the early years, set up as a condition of grant (paras 18-23);
- v. the Scottish dimension. The paper notes that there could be a case for Scotland to follow the English pattern and establish separate negotiating machinery for the colleges of education and the central institutions (para 26).
- vi. consultation. The paper notes that there is a commitment in the Higher Education White Paper (Cm 114) to consult both sectors about future negotiating arrangements. It would be appropriate to initiate the consultations before the summer holidays (para 27).

*prep*

*Alastair Morton  
to Sir P Middleton  
to Mr Cassell  
to Miss Noble  
to Mr Board*

FROM: MRS R LOMAX  
DATE: 10 JULY 1987

PPS

cc PS/EST  
Sir P Middleton  
Mr Cassell  
Miss Noble  
Mr Board

*to whom?  
to Mitsubishi?  
or to Morton?  
shd be to  
Mitsubishi  
who  
in fact  
to Mitsubishi  
No time  
for this  
6/2/87*

**BANKING ISSUES**

The following points emerged from conversation with Brian Quinn earlier today -

(i) Guinness Peat

*XI*

Mitsubishi are showing interest: they have told the Bank they want to buy a UK accepting house, and are being encouraged by Alastair Morton, who would like to throw off the yoke of Equiticorp. Brian Quinn has said quite robustly that there would be a Big Problem. Alastair Morton will be dropping by the Bank for a chat shortly.

(ii) Standard Chartered

Mr Holmes a Court has told the Bank that he wants to increase his stake above 15%. The Bank have to approve this, not just because the new Banking Act powers can be used retrospectively, but also because they need to approve shareholder controllers of LTDs (of which there is one in the group) under the 1979 Act. Holmes a Court will be in London next week.

(iii) Morgan Grenfell

John Craven has told the Bank that the insider dealing case of the Evans Brothers surfaced in January, but the compliance officer came to a dead end, because the names were wrong (Harris? instead of Evans). He is much aggrieved that it has now resurfaced and will be writing to the Stock Exchange and the DTI, offering full cooperation with any investigation.

(iv) Convergence

This will be on the agenda for the G10 Governors meeting this weekend. Volcker is very keen to sew it up before he goes in August and I deduce that the Americans are putting pressure on the Bank to say that they will go it alone if the Germans and Japanese continue to be obstructive. This seems out of the question at this stage: the last meeting of the Cooke Committee in mid-June ended in deadlock, and the Bank are well seized of the major European problem that would be caused by another Anglo-American deal. Nevertheless, in deference to Volcker, the Governors will be casting around for some form of announcement, as a mark of tangible progress. In reality, however, it looks as if the September meeting of the Cooke Committee will be the crucial one.



RACHEL LOMAX

FROM: M NEILSON

DATE: 10 July 1987

PS/CHANCELLOR

cc PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Paymaster General  
 PS/Economic Secretary  
 PS/Sir P Middleton  
 Mr Monck  
 Mr Cassell  
 Mrs Lomax  
 Mr Ilett  
 Mrs Brown  
 Mr Cropper

## STOCK EXCHANGE INVESTOR'S CLUB

The Chancellor recently agreed to help launch a new publication - Stock market - by providing a short message of support. Stock Market is to be the flag ship of the new Stock Exchange Investors Club, and we thought the Chancellor might be interested to see the first issue of Stock Market, together with the information pack that is being provided to members (not to copy recipients, we have only one copy). The Chancellor's own message of support will appear in the second issue of Stock Market, which will be included in this initial information pack.

2. First signs are that Stock Exchange member firms are quite enthusiastic about persuading their clients to join the club, and we shall keep Ministers informed of how successful it proves to be. The club may merit a reference in future wider share ownership speeches.

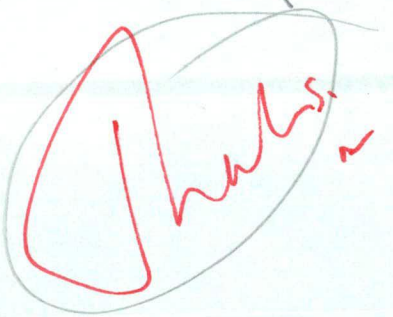
M NEILSON

**PERSONAL AND CONFIDENTIAL**  
**until 11.30am 14 July 1987**  
**then RESTRICTED**

FROM: R D KERLEY  
 DATE: 13 July 1987

1. MISS O'MARA
2. **CHANCELLOR**

cc Chief Secretary                    Mr Pickford  
 Financial Secretary                Mr Hudson  
 Paymaster General                 Mr Naisbitt  
 Economic Secretary                Mr Dyer (+1  
 Sir Peter Middleton                for No 10)  
 Sir Terence Burns                 Mr Tyrie  
 Mr Cassell                         Mr Stirling -  
 Mr Monck                          CSO  
 Mr Burgner                         Mr Kingaby -  
 Mr Scholar                         CSO  
 Mr Sedgwick                        Mr Lang - CSO  
 Mr Culpin                          HB/002  
 Mr S J Davies  
 Mr Gray

*Nigel*  


**INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - MAY 1987**

This will be published at 11.30am on Tuesday 14 July.

2. The index of production rose by 1.2 per cent in the three months to May compared with the previous three months, by 2.6 per cent compared with the same period a year earlier and by 1.2 per cent between April and May.
3. Manufacturing output rose by 1.0 per cent in in the three months to May compared with the previous three months, by 4.6 per cent compared with the same period a year earlier and by 1.0 per cent between April and May.
4. Recent movements

percentage changes	Latest 3 months on previous 3 months	Latest 3 months on same period year earlier	May on April	Latest 3 months on 1979H1
Index of Production within which:	+1.2	+2.6	+1.2	+5.4
Manufacturing	+1.0	+4.6	+1.0	-1.4
Energy and Water	+1.5	-1.8	+1.5	+26.1

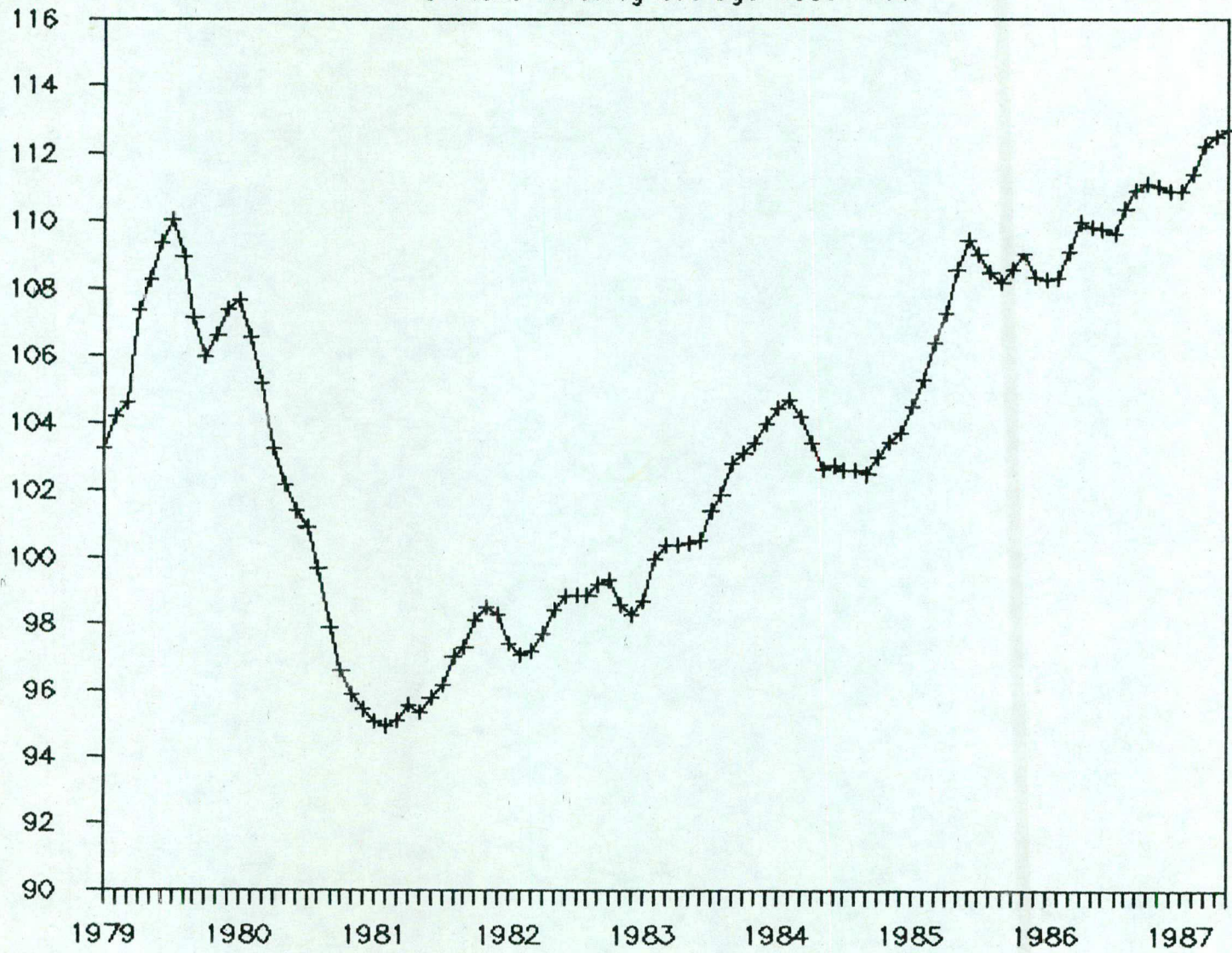
5. The series have been revised this month to take account of long-run revisions to data and the twice-yearly updating of seasonal factors.
6. After falling back from the 1985Q2 temporary peak, manufacturing output grew strongly during 1986. After falling back in January 1987, thought to be largely a reflection of the severe weather in that month, output has continued to grow. The May index is the highest since December 1979.
7. Energy sector output in 1986Q4 showed a decline of 4½ per cent from the third quarter, due particularly to reduced oil extraction after a pipeline leak. Output has recovered again in 1987, although it has still not reached the levels experienced in the first three quarters of 1986.
8. After the flatness in industrial production between the third and fourth quarters, of 1986, output has increased again in the first five months of 1987, reflecting the recovery in the energy sector and the continued growth in manufacturing.

*R D Kerley*

R D KERLEY

# INDUSTRIAL PRODUCTION

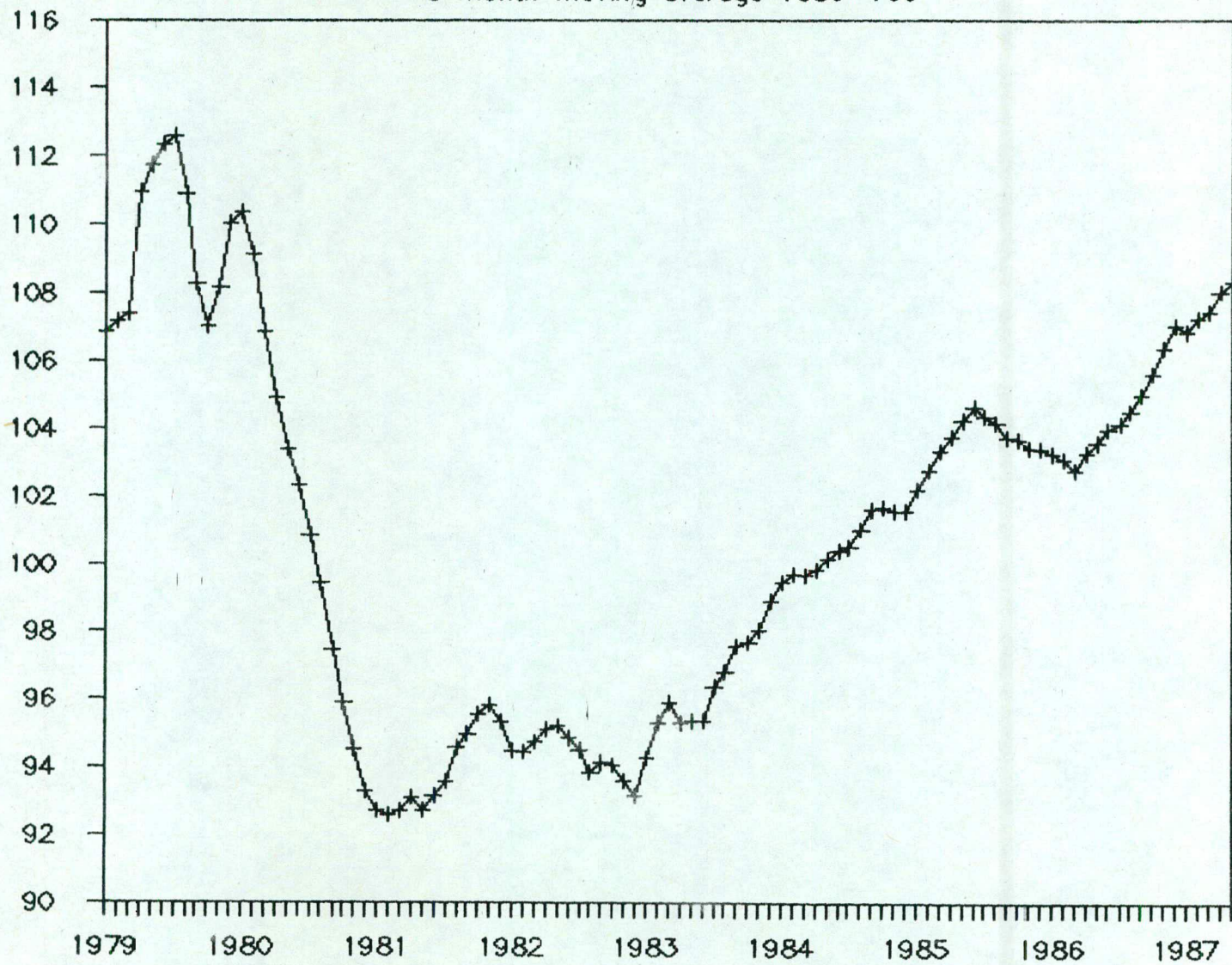
3 month moving average 1980=100





# MANUFACTURING OUTPUT

3 month moving average 1980=100



OUTPUT OF THE PRODUCTION INDUSTRIES(1)

(1980=100)

TABLE 1

	Broad industry groups			Market sectors		
	Production industries	Energy(2)	Manufacturing	Consumer goods	Investment goods	Intermediate goods
	Division 1-4	Division 1	Division 2-4			
Weights	1000	264	736	245	243	512
1981	96.6	103.8	94.0	96.4	91.3	99.2
1982	98.4	110.0	94.2	95.8	92.4	102.3
1983	101.9	115.9	96.9	98.8	93.0†	107.6
1984	103.3†	110.2†	100.8†	101.7†	97.4	106.8
1985	108.1	120.1	103.8	103.6	103.2	112.6
1986	110.2	125.4	104.7	106.0	101.5	116.1†
Seasonally adjusted						
1981	95.8	103.3	93.1†	95.4†	90.7†	98.4
2	97.3	103.8	95.0	97.4	92.0	99.6
3	98.3	106.6†	95.3	96.7	92.7	101.7
4						
1982	97.2	104.1	94.7	96.1	92.9	99.7†
2	98.8†	110.0	94.9	95.7	93.7	102.9
3	99.2	113.2	94.1	95.9	92.4	103.7
4	98.3	112.8	93.1	95.6	90.6	103.0
1983	100.4	112.8	95.9	97.7	93.6	104.7
2	100.5	114.9	95.4	97.4	90.9	106.6
3	102.8	117.4	97.6	99.9	93.0	108.9
4	104.0	118.3	98.9	100.4	94.4	110.2
1984	104.2	116.8	99.7	100.7	95.0	110.2
2	102.7	109.1	100.4	101.8	96.6	106.1
3	102.5	104.9	101.6	102.4	98.3	104.5
4	103.7	109.8	101.6	101.9	99.6	106.6
1985	106.4	114.9	103.4	103.6	102.2	109.5
2	109.4	122.7	104.6	103.4	105.6	114.2
3	108.2	120.6	103.7	104.0	102.2	113.0
4	108.4	122.2	103.4	103.4	102.7	113.5
1986	109.1	126.8	102.8	103.9	101.4	115.0
2	109.8	125.9	104.0	105.3	101.0	115.9
3	110.9	127.3	105.0	106.5	101.0	117.5
4	110.9	121.4	107.1	108.2	102.4	116.1
1987	112.2	125.0	107.4	107.5	103.7	118.4
1985						
M	109.5†	123.3†	104.5†	103.0†	105.8	114.4†
J	109.9	123.2	105.1	104.2	105.9†	114.6
J	107.6	119.1	103.5	103.6	102.0	112.1
A	108.0	119.4	103.9	104.1	102.2	112.7
S	109.0	123.4	103.8	104.4	102.3	114.3
O	108.7	123.8	103.3	102.7	103.2	114.2
N	109.4	126.6	103.2	103.6	101.8	115.8
D	107.0	116.3	103.7	103.9	103.0	110.5
1986						
J	108.4	123.9	102.9	103.0	101.6	114.0
F	109.6	128.8	102.7	104.5	101.2	115.8
M	109.3	127.7	102.7	104.3	101.5	115.2
A	111.0	129.1	104.5	105.8	101.7	117.7
M	109.1	124.6	103.6	104.8	100.8	114.9
J	109.2	124.0	103.9	105.4	100.6	115.0
J	110.6	126.5	104.9	106.2	101.3	117.0
A	111.3	129.5	104.7	106.5	100.5	118.4
S	110.8	126.0	105.4	106.9	101.2	117.1
O	111.2	123.4	106.8	107.6	102.4	117.1
N	111.1	122.4	107.0	108.8	102.3	116.3
D	110.3	118.5	107.4	108.2	102.4	114.9
1987						
J	111.2	125.2	106.2	107.1	102.9	117.1
F	112.7	125.3	108.2	108.0	103.9	119.0
M	112.8	126.4	107.9	107.4	104.4	119.2
A	112.0	123.2	108.0	107.8	104.3	117.6
M	113.3	125.0	109.1	109.0	104.9	119.2
% 3-month on 3-month change (3)						
	+1.2	+1.5	+1.0	+0.3	+1.4	+1.4

(1) Output index numbers include adjustments, as necessary, to compensate for the use of sales indicators (see Notes to Editors).

(2) Includes water supply.

(3) Average of March to May 1987 compared with the average of December 1986 to February 1987

An obelus in the table indicates that the data are new or have been revised. The period marked is the earliest in the table to have been revised.



10 DOWNING STREET  
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	15 JUL 1987 ✓ 157
ACTION	MISS O' MARA
COPIES TO	EST FST PMG EST SIR P MIDDLETON
	SIR T BURNS
	MR FER BUTLER
	MR MONCK
	MR BURMER
	MR SCHOLAR
	MR SEDGWICK

From the Private Secretary

14 July 1987 MR S J DAVIES  
MR CULPIN

Dear Tim,

prop

INDUSTRIAL PRODUCTION

The Prime Minister has been stimulated by today's industrial production figures to ask for an analysis of the pattern of change by industry since 1979, comparing rates of growth with a brief analysis to suggest reasons for the differences. I suggest that this might be done either by class or at least in a form not as aggregated as in table 2 of the press notice but the analysis need not be elaborate. It would be helpful to have some examples of individual businesses which may have had a significant effect on the change of production in each class, whether by decline or by success.

I should be grateful if you could set this in hand. It would make good holiday reading for the Prime Minister.

I would be happy to discuss if you wish.

I am copying this letter to Tony Kuczys (HM Treasury).

Yours,  
David

(DAVID NORGROVE)

Timothy Walker, Esq.,  
Department of Trade and Industry.

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*plmp*

FROM: N G FRAY

DATE: 14 July 1987

MR R D KERLEY

**INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - MAY 1987**

The Chancellor has seen and was grateful for your minute of 13 July.

*Nigel Fray*  
N G FRAY-