cc Master ✓MAP

MASTER

Note of a Meeting between the Prime Minister and the Chief Secretary at 10 Downing Street on Wednesday, 4 July, at 1115

The Prime Minister said that she wished to have a word about the public expenditure exercise before she saw the Secretary of State for Education, who wished to discuss with her the implications of this exercise for the education programme.

The Chief Secretary recalled that public expenditure was being reviewed on the basis of the options of cuts agreed in Opposition or a 7½% reduction. The target was to maintain public expenditure at 1977/78 levels in real terms in a situation where no growth seemed likely over the next year or two. It could be argued that this was a realistic, not gloomy, view. The Prime Minister said she was sceptical about the no growth forecast. North Sea oil and the industry built around it ought to generate some growth. The Chief Secretary agreed that current growth projections needed treating with some scepticism. He personally subscribed to the Congdon-Messel analysis which argued that the proceeds from the North Sea should be used to reduce the borrowing requirement. The target of maintenance of public expenditure in real terms at 1977/78 levels required cuts of the magnitude now suggested. He acknowledged that this was a thankless task for Departments, but once major exemptions had been agreed for defence, law and order, and health, and with provision made for near automatic increases in pensions, etc., there was a relatively narrow band of Departments left. He was grateful for the great cooperation shown by the Industry Secretary, although the savings from that source were on funds that would otherwise channel back into manufacturing industry through the Department. His particular concern was that no firm decision on how to handle cuts at DES should be taken ahead of the Cabinet decision. The Treasury were not making any effort to set the priorities for DES or any other Department, but were simply asking for the necessary savings to be achieved. The underlying risk was that the Government could be faced with rising public expenditure against falling output.

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The Prime Minister was disturbed to note some of the options which had been put on to paper by DES: for example, the idea that 16-18-year-olds might have to pay for tuition was intolerable, and once set on paper would undoubtedly leak. She did not wish to see efforts made to achieve tiny cuts on the margin of the education programme. But the DES were arguing that standards were directly related to spending. She had never subscribed to this view. There were possibilities for savings, for example, in the teacher/pupil ratio, and in shaking out the many inadequate teachers who could be replaced by the better ones now being trained, but finding a shortage of vacancies. The school meals system could also be managed more economically. She did not believe that it would pay to cut down on nursery education. She would resist proposals to close a substantial number of village schools, as centralising primary education over an area tended to involve an expensive new building, and much greater running costs for maintenance and transport.

The Chief Secretary pointed out that by 1982/83, there would be a one million drop in the school population. This would produce difficulties, and there would be larger numbers in higher education. But this underlying trend made DES one obvious target area for careful examination. The education system was now a large public sector employer quite apart from the teaching profession itself, and as Treasury Ministers studied underlying trends, it was becoming increasingly clear that public sector pay was the dynamic in public spending.

4 July, 1979.

PRIME MINISTER

You agreed to see Mr. Carlisle, with Lady Young, to discuss spending on education. You asked first to have a meeting with the Chief Secretary.

This folder contains:

Flag A: Mr. Carlisle's minute requesting the meeting;

Flag B: Mr. Carlisle's letter to the Chief Secretary on educational spending;

Flag C: Note from Sir Kenneth Berrill on the subject.

Loose in the folder you will also find the Treasury Red Book which you wanted to see. ✓

The note from Sir Kenneth Berrill does not take account of the latest intention for the public expenditure item on Cabinet at 12 July: I understand that the Treasury now hope to secure final agreement only on 1980/81 figures, and to postpone the final decisions on later years to the autumn.

Subject to the need to avoid pre-empting Cabinet discussion, Sir Kenneth's note provides a number of points to make including: the proposed cuts are on planned not existing levels of expenditure; the fall in numbers of school children may not be fully offset by increases in those following higher and further education; the DES option for savings on unit costs would leave these a little above 1977/78 levels in real terms; there must be scope for adjustments in teacher/pupil ratios at certain levels; the assumption that more resources are the only way to increase standards could be questioned. Further consideration could be given to school meal arrangements, loans in place of grants, means-tested payment for nursery level, and charging arrangements for transport, overseas students' fees and adult education.

MAP

3 July 1979

Qa 04171

To: MR LANKESTER

From: SIR KENNETH BERRILL

The Prime Minister's meeting with Mr Carlisle

1. The Secretary of State for Education and Science has asked to come to talk to the Prime Minister about his letter of 18 June to the Chief Secretary on difficulties in making savings in the education budget. I understand you would welcome CPRS comments.

2. The Government has set itself an ambitious target in seeking to restrain public expenditure to its 1977-78 levels while broadly protecting the Defence, Law and Order, and Health programmes. In Social Security there is only limited scope for reductions beyond the proposed change in indexation of benefits from an earnings to a price basis. This inevitably leaves the remaining services, of which education and housing are the most important, to bear heavy cuts. These are bound to be controversial. While one might quarrel with the detail of the Department's 'options', there is no doubt that cuts amounting to £1,500m. by 1982-83 would involve measures of considerable political sensitivity. Ministers in Opposition had not much more than one-third of this figure in mind.

3. The Prime Minister will not want to pre-empt the Cabinet discussion which will have to go into the whole question of whether the overall target can be maintained, the balance of the cuts between programmes, and which of the necessarily controversial proposals should be adopted. Mr Carlisle's letter does, however, overstate his case and the Prime Minister will probably wish to stress that education cannot escape a substantial cut if the Government is to go any way towards fulfilling its pledges. She could also point out that these are cuts on planned expenditure, not existing levels (still less existing costs per student).

4. The following comments on the Department's letter may be helpful:

Demographic factors

5. Between now and 1982-83 the number of school children will fall (by 17 per cent in primary schools and 4 per cent in secondary schools). On unchanged policies this will be partially but not fully offset by a speculative forecast rise of 9 per cent in the numbers of students in higher education and 5 per cent in further education. The powerful education lobbies (led by the teachers' unions) believe that the slack created by falling numbers should be used to improve standards and expand the educational system. But there is no reason why education should have first claim on resources made free by demographic change - which works against some other services.

6. It will require a major effort to squeeze out savings. DES suggest that a major effort has been made (expenditure was slightly less in 1978-79 than in 1973-74). This is somewhat misleading since there was a considerable reduction in capital expenditure offset by a steady rise in current expenditure. Mr Carlisle stresses two real problems about achieving savings proportionate with falling school rolls:

(i) the fact that the demographic bulge is moving into the more expensive part of the educational system;

(ii) the difficulty in closing schools and reducing teacher numbers immediately as classes and schools suffer a marginal drop in numbers.

Unit costs

7. These arguments however need qualification. Unit costs have been rising at each level of the school system and regardless of whether the numbers at each level are rising or falling. This rise is forecast to continue unless cuts are made:

	1973/74	1977/78	1978/79	(1978 survey prices) 1982/83 (Public Expenditure White Paper)
Under 5s ('000s of pupils)	451	501	518	602
(current cost per pupil) £	297	395	402	434
Primary ('000s of pupils)	5,476	5,129	4,958	4,119
(current cost per pupil) £	280	315	327	361
Secondary ('000s of pupils)	4,110	4,499	4,536	4,373
(current cost per pupil) £	466	487	498	543

Worthwhile savings in education must include some reduction of these unit costs. The DES option (item 4) is to save £400m. which Mr Carlisle suggests would involve a serious deterioration in standards. This is questionable since that it broadly represents is a reduction in unit costs to a little above 1977-78 levels in real terms. The Prime Minister might like to ask Mr Carlisle whether he is certain no more can be squeezed out on this. In particular, it might be worth asking whether the teacher training programme has been cut enough to avoid a future surplus of teachers.

Standards

8. Reduction of resources in schools is represented as contrary to the Government's policy of improving educational standards. However, a large part of any change should be possible by an adjustment in teacher/pupil ratios. There is considerable evidence that within the ranges under consideration, teacher/pupil ratios have little or no effect on educational standards. It is true that the axe may fall on activities which are in the economic interest of the nation (for example better science and engineering teaching, more careers teaching) and it will be important for the Government to do what it can to protect these. However, at any level of resources the Government has little power to ensure that schools concentrate sufficient effort on these aspects of education and there is a need for work to establish how best this can be done. The Prime Minister may like to question the assumption that more resources are the only way to increase standards.

School meals

9. The CPRS believes this is a very uneconomic service. It costs nearly 60p. a meal to put 20p. of food to the children. There is a strong case for a thorough study of the school meal service in the light of the family support system generally, to see whether a more flexibile and cost-effective system could be devised with greater discretion for local authorities. We understand that local authorities are pressing for such discretion and believe that they could make substantial cuts with more freedom. The introduction of a limited choice snack system need not necessarily be less popular than the present system (which only two-thirds of children take up) or less nutritious; and there are other options such as greater involvement of older children in the preparation of meals.

Higher education

10. This is an area where cuts are not easy to make because of the demographic bulge just entering. Again it can be questioned whether a reduction in the teacher/student ratios which are very generous by European or American standards will lead to falling standards. In the longer term (beyond this PESC period) worthwhile savings could be achieved by going over from grants to loans. It is for consideration whether DES should be asked to revive this possibility.

Charging

11. Many of the remaining options are areas where greater use of charging is possible. They include:

(a) the under 5s. Means-tested payment does not seem unreasonable, especially as day nurseries, which provide more for the socially disadvantaged, already charge. There is a case for a full review of provision for the under 5s.

(b) School transport. This might be less desirable if it discourages the closure of schools.

(c) Overseas students' fees.

(d) Adult education.

While the levels of charging are open to debate in each case, some increase would be consistent with the Government's general philosophy. It is hard, however, to believe that tuition fees for 16-18 year olds (option 6) can be regarded as a realistic option. Going into details on the various options could prejudge the Cabinet discussion but Mr Carlisle might be pressed as to whether he really sees no scope for a greater use of charges.

Potential opposition

12. Mr Carlisle stresses potential opposition from teachers and local authorities. It is inevitable that any reduction in public expenditure will raise substantial opposition from interested parties which will make life difficult for the Government in areas where they need co-operation. But this is a general point which the Government will need to take into account when deciding the total of public expenditure cuts. Similarly, any reduction in current public expenditure means redundancies or greatly reduced recruitment of staff - in this case teachers and ancillary workers. Moreover, teachers and would-be teachers have considerable skills which it is to be hoped can be redeployed elsewhere in the economy to good effect. Mr Carlisle mentions concern by the Shire Counties that they have suffered unduly through the last Government's change in the rate support grant and that they should not suffer any more. This is not an argument for lower reductions of education expenditure but for a review of the rate support grants formula. It is noteworthy that in recent years local authorities have in practice chosen to spend less on education and more on other environmental services than was budgeted for in the rate support grant negotiations.

13. I am sending a copy of this minute to Sir John Hunt.

KB

2 July 1979