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PRIME MINISTER

*The Treasury will no doubt  
be commenting. DRS 17/1*

## Public Expenditure Priorities for the Next Parliament

1. At Chequers in the summer there was wide support in Cabinet for higher priority for education. Much has been done under your leadership to devise policies for education and training for improvement. But, as we approach the Election, policies will not suffice: we shall need to convince the electorate that they will be implemented if Manifesto commitments are to be credible.
2. The teachers' pay dispute and higher education pressures obscure and prevent us getting the credit for what has been done and is in prospect - on the curriculum, examinations and training. We agree <sup>that</sup> radical steps about teachers' duties and pay structure are needed not only to restore order but also to make our education policies possible.
3. If we can achieve those, we shall open up an important political opportunity. Recently the performance of education has been criticised more effectively than before. British employers have been challenged about their training arrangements. Countries abroad are perceived to manage better. An imaginative education and training package could be a central and effective part of our next election manifesto.
4. But such a package would not be credible unless we are seen to be prepared to spend appropriately. Since 1979 we have, for good and proper reasons, given priority to our 1979 campaign pledges - defence, health, pensions and law and order. But we need, it seems to me, to make room to include education and training. Responding to concern about the future would give our manifesto a more positive and optimistic note.
5. You and I agree that more public expenditure will not by itself improve education. Better management, less waste, more selectivity and rigour will continue to be required. That means continuing our efforts to secure a faster removal of surplus school places; to achieve more savings in caretaking and cleaning costs

CONFIDENTIAL

## CONFIDENTIAL

and in other ways identified by the Audit Commission in NAFE; and to cut the costs of school meals by legislation and by other means. We shall also need other initiatives: institutional changes, wider privatisation; greater use of specific grants.

6. But our friends in LEAs, particularly in the counties, have not been wasteful and they are having to make undesirable cuts. And we have already scored substantial efficiency savings in our public expenditure plans for education. While I shall pursue further savings, I cannot see the scope to free enough resources to achieve our policies for higher standards in attainment, attitudes and behaviour.

7. Success depends on our being able to deal with those aspects crucial to our policies that need more expenditure. In the schools

(i) Our White Paper "Better Schools" acknowledged that our plans for a better curriculum which incorporates the lessons of the TVEI, is better taught, and is supported by the reformed examination system, will require a further small improvement in the national pupil/teacher ratio. The objective is not to go on lowering class sizes but to give teachers, particularly in the primary schools, more time away from their own classes in order to prepare their lessons and provide specialist teaching in other classes, and to expand in-service training (Primary teachers now spend over 90% of their time in their classes compared with less than 80% in the case of secondary teachers).

(ii) Higher standards in schools will not be achievable unless the teaching force - including many who were badly trained in the 1960s and 1970s - are taught new teaching and other skills. This is why we have already given priority to TVEI-related in-service training. But so far very few teachers have been reached.

## CONFIDENTIAL

## CONFIDENTIAL

(iii) We need to make possible the evident desire of LEAs to spend more on repairs and maintenance, so that school buildings can efficiently serve our efforts to raise standards; and on the equally necessary books and equipment. Public concern about current deficiencies will be an election issue.

(iv) Local authorities need to spend more to rationalise the stock of schools - in order to remove more surplus places - and to modernise equipment in colleges and polytechnics in line with training, re-training and updating policies.

8. Nor am I concerned only with schools and colleges. In science and in the universities we are losing talent. We have brought greater rigour and selectivity and better management into the Research Councils. In the universities we are in trouble over pay. Academic salaries have been held down in recent years: in one sense this is a success but there is now evidence of failure to recruit, retain and motivate quality staff, with a significant brain drain of good scientists. I shall be minuting separately on this shortly.

9. Pay aside, the universities are short of money to renew and improve equipment (very damaging for scientific research), to maintain buildings and to buy out staff so as to make room for young talent. Following the Jarratt report, action is in hand to improve efficiency, economy and management, but the savings have largely been scored already.

10. The UGC is pushing on with rationalisation and with the concentration of research. One outcome of this process, given present funding totals, ought to be closure of several universities. The UGC will almost certainly recommend that formally and publicly to the Government this year. The future of our universities is thus likely to be an election issue.

## CONFIDENTIAL

CONFIDENTIAL

11. Finally we need to give a new impetus in the next Parliament to professional updating and continuing education. Skill shortages in key areas are likely to continue to increase. Technical change will give a competitive advantage to those countries that update their workforces effectively. The laggards will go to the wall. Public expenditure has a role to play here. Much could be done by way of loans (to those who seek updating without an employer's backing) at commercial rates and by enlightened self-interest by employers. But experience shows that in this country they will not be enough. To get back into the race with our competitors we need to put public money up front.

12. I am copying this minute to the Chancellor of the Exchequer and the Chairman of the Party.

K.J.

KJ

Department of Education and Science

16 January 1986

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