PA

PRIME MINISTER

LONG-TERM PUBLIC EXPENDITURE: EDUCATION

Here is another Treasury brief prepared for the long-term public expenditure exercise, this time on education. The Chief Secretary knows you have a copy, but Sir Keith Joseph does not - and will presumably have a brief of his own prepared by the DES.

Again you will recall that, under scenario B, public expenditure would rise to 47 per cent of GDP if no action were taken to contain it.

MCS

14 December 1982

From: M J C [illegible]
Date: 2 DECEMBER 1982

1. MISS KELLEY
2. CHANCELLOR OF THE EXCHEQUER cc: Mr Hart
Mr Sallnow-Smith
Mr Sargent

copies attached for:

Chief Secretary
Sir D Wass
Sir A Rawlinson
Mr Mountfield

LONG-TERM PUBLIC EXPENDITURE: EDUCATION

This is a brief for the Prime Minister's meeting on 7 December with Sir Keith Joseph, which the Chief Secretary is also to attend. You have Mr Mountfield's general brief of 26 November.

2. Officials' original report on long-term public expenditure showed that, on present policies, education spending would fall both in cost terms and as a percentage of GDP by 1990, because of demographic change. We need these savings anyway. They do not exempt Sir Keith from the need to find more. Nor can we afford to redeploy them on other educational initiatives - as Sir Keith sometimes appears to believe.

3. The CPRS paper identified three options in the education field:-

- cutting teacher numbers (£1 billion a year)
- charges for schooling (£3-£4 billion)
- charges/loans for students (£1 billion)

Our original briefing on these is attached. Sir Keith is not of course confined to these. You will want to encourage him to pursue any promising variants or alternatives.

4. The risk in the higher education sector is that Sir Keith will regard the DES remit as overtaken by:

a. the DES work on a much less radical student loans package.

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b. A more recent remit to CPRS from the Prime Minister on the effectiveness with which the higher education sector meets the needsfor industry.

5. While both pieces of work are important, they do not let the DES off the hook. The DES student loan options save only £200 million a year and that probably not within this decade. The CPRS remit on higher education is more about efficiency than public expenditure savings. Of course its results may well provide pointers to areas where savings could be made but it cannot b e guaranteed to yield the magnitude of savings the LTPE exercise is looking for.

6. So you will want to press Sir Keith to look beyond the work which is already in train. Not least, you will want him to think seriously about the possibility of a more far-reaching loans scheme than he is currently considering.

7. As for the schools field, our briefing on the CPRS "Charging for Schooling" proposal referred briefly to vouchers. You are familiar with Sir Keith's subsequent proposals for a watered-down pilot scheme, which envisaged increased public expenditure. In his paper Sir Keith considered but rejected largely on political grounds the introduction of a market-based school system similar to that described by CPRS. In further discussion of his scheme you may be able to beef up the pilot proposal a bit. But whether or not you succeed in this, you will want to encourage Sir Keith to consider in the LTPE context the possibility of a more thorough-going market approach. Such a system holds out the prospect both of generating substantial revenue through school fees and of drastically scaling down (if not abolishing) the local education authorities, many of whose functions would be rendered superfluous.

8. We doubt whether Sir Keith can offer up substantial savings other than those set out in the CPRS paper (or variants on those) except by way of a package of smaller items. This might for example include two options produced (but rejected) during the

recent Survey: the abolition of provision for under fives and the abolition of the school meals service with the introduction of a shorter school day, saving around £130 million and £220 million respectively in a full year. But measures such as these would arguably give rise to controversy quite out of proportion to the (relatively) modest savings.

Conclusion

9. You will therefore wish to urge Sir Keith to take this exercise seriously. It is not your intention to tell him how to make long-term savings in his programme. Any option is likely to be painful and difficult. But the same will no doubt be true of the options for other programmes. You hope therefore he will not be persuaded that work he has already set in hand disposes of the need for a radical look at his programme.

MF.

M J C Faulkner

CUTTING EDUCATION SPENDING

Background

1. Inputs into school education (eg as measured by pupil/teacher ratios) have rocketed since the war. The effect on qality of output is at best debatable. Recent attempts to rein back have been defeated by lack of controls over LA current spending and LA's reluctance to cut back the teaching force and close down surplus capacity in line with falling rolls.

CPRS proposal

2. As an alternative to charging (Annex G) they propose to cut (say) £1 billion off schools expenditure by concentrating on 'core' subjects, getting rid of unsatisfactory teachers, and exploiting information technology.

3. This would be fine if the cuts could be managed in such a way as to preserve quality of output. But:

- the cuts would be undeliverable under the present LA financial régime
- even if deliverable they might not fall in the right place. The youngest and best teachers - with the best prospects elsewhere - might be the first to leave. Those that remain would not necessarily be qualified in the right mix of subjec[ts]. And authorities might continue to resort to easy short-term expedients such as cutting book provision and maintenance rat[her] than tackling fundamental problems of over-capacity.

Line to take

4. There is no doubt substantial scope for cutting schools expenditu[re] without serious damage to the system. But the overall problem of contai[n]ing LA current spending would first have to be solved. Even then autho[r]ities would not necessarily deploy their reduced resources in the most efficient way unless market pressures could be brought to bear more effectively (which takes us back to Annex G). At least until we are clearer where we are going on LA expenditure controls generally, this [does] not seem to be one of the stronger candidates for review.

ANNEX G

[CH]ARGING FOR SCHOOLING.

Background

1. Schooling is currently compulsory for 5-16 year old children and, in state schools, free for children of all ages.

CPRS proposal

2. Schooling for a specified age-group would still be compulsory. But full cost would be charged subject to:

- some form of support for poor parents;

- some system to compensate for inescapably high unit costs of eg inner city schools.

Savings would be up to £3-4 billion.

3. Efficiency gains should be expected as a result of increased competition between public sector schools and fairer basis of competitio[n] between public and private sectors. (But transitional problems of self-reinforcing run-down in unpopular schools could be severe). A voucher scheme would have the same effects but would mean an increase in public expenditure. But political difficulties where authorities were relucta[nt] to impose adequate fees. A problem not sufficiently stressed by CPRS is that fees for compulsory age schooling would be seen as tantamount to a new tax.

Line to take

4. In view of the potential savings you will presumably want to press for this option to be seriously examined. But you may get little support. In that case, you could seek a much more limited study of charging for under-fives and over-sixteens - both at school and in FE institutions. (DES recently tried and failed to get agreement to legislation ruling out charging in FE institutions on the grounds that comparable provision in schools was free).

CHARGING FOR HIGHER EDUCATION

Background

1. At present, higher education institutions are 90% funded by grants (via UGC etc) and only 10% by tuition fees. Most students get mandatory awards, which cover fees in full, and maintenance on a means-tested basis.

2. Proposals are already being developed for replacing the maintenance element of student awards, or a proportion of this, with loans. The DES version would ultimately save £200 million a year; more radical variants seem possible.

CPRS proposal

3. CPRS are suggesting:

- 100% of institutions' costs would be met by fees (and any private money they could raise);

- only a limited number of students would have their fees paid by Government, or have access to a Government loan scheme.

4. This would save possibly £1 billion a year and should make both institutions and students more market-oriented in their behaviour. Possible objections are that it would give the institutions a very bumpy ride (so they will fight it tooth and nail); could lead to some reduction in the supply of needed graduates; and could give an unwanted boost to arts courses because these are much cheaper than science ones - though job market signals would still point firmly the other way.

Line to take

5. Well worth detailed examination. We should not be deterred by predictable opposition from vested interests - however articulate and influential. Mounting review does not of course commit us to action at the end of the day.