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PRIME MINISTER

LONG TERM PUBLIC EXPENDITURE

In your minute of 4 February you asked me to report on the scope for substantial reductions, in the longer term, in public expenditure within the area of my responsibility ie education (England only, except for universities) and science (UK). (The Minister for the Arts is considering his programme separately). My starting point is last year's report by officials on public expenditure up to 1990-91 (C(82)32) and I have taken account of the suggestions made in C(82)31 and in our subsequent discussion on 15 December.

2. The bulk of my programme is devoted to schools and higher education, which take 55 per cent and over 20 per cent respectively, and, on present policies, the proportions in 1990-91 will be similar. Of the remaining significant areas of expenditure, substantial reductions in expenditure on science would seriously reduce our ability to further scientific knowledge and to preserve that capacity for scientific research which is essential for our economic and social policies. Expenditure on school meals has been cut by 25 per cent in real terms and our plans already allow for further reductions. I doubt whether there are additional major savings to be made in this area, but I shall continue to examine the possibilities. The savings which I hope to achieve through improving the efficiency of non-advanced further education will be needed to strengthen its role in technical and vocational education, where we lag behind our competitors. The rest of this minute therefore considers the scope for savings in the areas of schools and higher education.

SECRET

CF/ I make a
collection of
31/3
MS 28/3

Prime Minister

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8

cc N.O.

There will be a series of
these. I will collect them together
for resubmission with advice.

MS 25/3

3. Substantial savings have been achieved or are planned in both: in schools from the progressive removal of surplus places and from a reduction in teacher numbers as pupil numbers fall, and in higher (and further) education from the tightening of staffing ratios.

4. Savings from these measures were taken into account in C(82)32, which showed that expenditure on education, science and arts was expected on present plans to fall in 1980-81 cost terms from £11 billion in 1979-80 to £10.2-£10.4 billion in 1990-91. However, these figures rested in part on an assumption of a sharp decline (which is at variance with our subsequent experience (see paragraph 7 below)) in participation in higher education (including universities) up to the mid-1980s. They may also be outdated in other respects. There is a case for extra spending in the schools area on eg technical education, primary school teachers and wider parental choice; in higher education the introduction of loans for student maintenance, if agreed, would result in some additional costs; and there may be other areas where some modest extra spending will be desirable. Capital expenditure to replace obsolete buildings and equipment is an example.

5. Almost the whole of schools and a good deal of higher education expenditure falls to local authorities. Most authorities have shown themselves willing over the past three years to cooperate with us in checking expenditure on education and the budgets of the shire counties in particular (much of whose spending is on education) for 1983-84 are very close to our targets. Further substantial reductions below the level envisaged in C(82)32 would almost certainly involve legislation (eg to control the spending of individual authorities, which is under consideration in E(LF)).

6. The Annex discusses the scope for further savings in teacher costs, the one area which we identified for further examination at

our meeting on 15 December. My conclusion is that in 1980-81 cost terms savings of about £150m in 1990-91 might be achieved by reducing the assumed level of teachers' pay or (at some risk to our policies for the schools, eg making the curriculum more practical) by worsening pupil-teacher ratios to the 1980-81 levels. Savings much in excess of this would be seen to pose a serious threat to standards and would almost certainly require statutory controls of a kind which would involve me in a detailed oversight of local authorities.

7. On higher education, the assumption in C(82)32 was that expenditure would fall in 1980-81 cost terms from about £2.3 billion in 1980-81 to about £2 billion in 1990-91, mainly because of smaller age groups and a lower participation rate. We should note however that since the preparation of C(82)32 the participation rate, far from falling towards 11 per cent, has increased to over 13 per cent. We have yet to determine our policy response to this development, but it must in the meantime cast some doubt on the validity of our original assumption. We noted on 15 December that the proposals which I am considering for different methods of financing selected universities were unlikely to yield public expenditure savings.

8. In short, I do not think that we can expect to improve significantly on the forecast decline in my programme to 1990-91 to which I refer at the beginning of paragraph 4. We must, however, continue to exert all the pressure we can on unnecessary and ineffective spending on education in order to enhance the efficiency of the service and to produce the "bias towards economy" which we have agreed is necessary.

9. I am sending copies of this report to the Secretaries of State for Northern Ireland, Scotland and Wales, who saw it in draft, to the Chief Secretary, Treasury, whose comments on an earlier version I have taken into account, and to Sir Robert Armstrong.

KJ

Teacher costs in Schools

1 The 1982 inter-Departmental report on long term trends in public expenditure assumed current expenditure on primary and secondary schools falling from £5.1 billion in 1980-81 to £4.6 billion in 1990-91, both figures in 1980-81 cost terms. Teacher costs, broadly the product of teacher numbers and teachers' pay, takes about 70 per cent of schools' current expenditure, On this basis the inter-Departmental report is consistent with teacher costs declining from £3.6 billion in 1980-81 to £3.2 billion in 1990-91.

- 2 These figures are consistent with
- (i) pay increases for teachers giving them on average throughout the decade 1/2 per cent annually above the increase in prices;
 - (ii) a decline in teacher numbers between 1980-81 and 1990-91 matching three-quarters of the age-weighted decline in pupil numbers over the same period.

The first of these is the assumption made for all public service pay in the more favourable economic scenario in the inter-Departmental report (on the less favourable scenario it would be 1/4 per cent). The second would yield an overall improvement in pupil-teacher ratios from 18.6 to 17.8, an improvement which would help to overcome the diseconomies of scale and to maintain educational standards during contraction.

3 A saving on the £3.2 billion figure for 1990-91 could result from reducing the assumed level of teachers' pay, reducing the assumed teacher numbers, or both.

4 If the 1/2 per cent assumption in 2(i) were replaced by zero, so that teachers' pay stayed in line with price inflation, this would effect a saving of approximately 5 per cent by 1990-91, or approximately £150 million in that year. It may be considered unrealistic to look for any greater saving on this basis.

5 If the assumption in 2(ii) were replaced by achieving in 1990-91 the same pupil-teacher ratios as in 1980-81, this would amount to a saving of about 5 per cent on numbers and therefore again about £150 million. This would make it very difficult, if not impossible, for local authorities to achieve our policies for the schools, by for example making the curriculum more practical and enriching it with a technical and vocational element.

6 To effect a saving of £1 billion as a result of keeping teachers' pay in line with inflation as in paragraph 4 and reducing teacher numbers by about 25 per cent below the level assumed in 2(ii) would involve increasing pupil-teacher ratios from 21.7 and 16.1 for primary and secondary schools respectively in 1980-81 to about 27 and 20 in 1990-91. Average primary class sizes would rise above 30. It seems clear that this could not be achieved without taking powers to control the employment of teachers by local education authorities and the governors of voluntary schools. A significant reduction could be expected in educational standards.

25 March 1983

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