



Treasury Chambers, Parliament Street, SW1P 3AG

30th September 1983

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Education and Science
Elizabeth House
York Road
London SE1 7PH

Dear Secretary of State

I thought it would be helpful if, in advance of the full note which we will be circulating separately, I were to set down briefly the main points to emerge from our meeting yesterday.

2. To take your bids in order (numbering as in my letter of 5 September):

- you have withdrawn bids 1-3 and replaced them with a single bid for capital expenditure on schools and FE of the order of £50 million in each year. You asked me to consider whether this could not be met by reallocation from other local authority capital programmes which have been underspent in the past. We explained however that, while I was pressing hard for economies on other programmes, any savings would be needed to offset other, clearly inescapable, bids.
- Your bid 4 (universities capital) stands, subject to modification if we were to agree to a further relaxation of the rules on treatment of university disposals of assets. Our officials are to examine further the individual components and to discuss with DHSS the element related to medical and dental schools.
- You have withdrawn bids 5 (IT in FE) and 8 (adult and continuing education.)

- Your bids 6 (universities current), 7 (student awards) and 9 (science) stand. Officials are to examine further the 'inescapable' elements of 6. I have agreed 7. I have conceded the element of 9 (£6 million, £8 million, and £7 million in the three years) which is related to the increased costs of international scientific collaboration; whether I will be able to assist you on any of the other components will depend on the outcome of the Prime Minister's meeting on 19 October.

To summarise, your remaining bids now add up to (£ million):

	175	225	265
I have agreed bids of:	46	58	52
leaving a balance to be resolved of:	129	167	213

3. Turning now to savings:

- we have agreed that officials should discuss the scope for negotiable savings on student awards, amounting perhaps to:

20	40	50
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- We have agreed that savings should be sought in the Open University. We did not decide on a firm figure, but I would suggest that we think in terms of:

3	3	5
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I appreciate however that you believe it would be very difficult to secure any reduction in the first year; again officials can discuss.

- We have decided that withdrawal from CERN is not worth pursuing. I pointed out however that the size of our international commitments has a bearing on the size of the domestic programme we can afford.

- We have agreed that savings should be achieved in the direct grant colleges amounting to:

5	5	5
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- we discussed the prospects for savings in universities' housekeeping. You rightly reminded me that administration proper accounts for only a small proportion of university costs. I think however that we need to take a wider look at the generality of support services. Parallel studies in Government research establishments and Research Councils have identified the scope for significant reductions by way of, for example, improved arrangements for purchasing and storekeeping and also (on capital account) from sales of surplus assets. It would be surprising if economies in these areas were not found to be equally practicable in the universities; and perhaps also in such activities as the running of halls of residence and catering. I suggested that an efficiency study should be undertaken in a small sample of institutions. We spoke also about the need for further rationalisation and reduction in unit costs from the final year of the Survey period onwards, taking account inter alia of the coming reduction in student demand; and about the prospects, probably less immediate, of a substantial increase in private funding. I remain of the view that we should be thinking of reducing university grant by £75 million in 1986-87, perhaps with some modest efficiency savings in the earlier years. You agreed to reflect further, in the light of discussion with Sir Peter Swinnerton-Dyer, and to let me know the outcome within a week or so.

We are already agreed then on savings approaching:

28 48 60

and are to examine the position of the universities further.

4. I am, needless to say, most grateful for the help you have already given me and for your understanding of my position. I am concerned however that the gap between what you are seeking in the interests of your programme and what I can afford to offer in view of other inescapable claims remains so wide. Acceptance of your total bids, offset by the savings so far agreed, would entail net additions to your baseline of nearly £150 million in the first year rising to over £200 million in the third. Even if it proved possible, following the Prime Minister's meeting, to help you further on science by reallocations from the programmes of other colleagues, and even if, as I hope, we make some headway on savings in the universities, I would find it very difficult to agree to anything approaching the entirety of your outstanding items. It remains my belief that it will be very difficult to contemplate additions to your baseline in years 1 and 2 and I would very much hope that we could achieve a reduction, however modest, in the final years. It would be extremely helpful therefore if you could reflect further over the next few days on the possibility of withdrawing or modifying some of your outstanding bids.

5. On manpower, Barney Hayhoe and I explained that, in view of the general policy colleagues have agreed for the years after 1984, we would have to ask you to review your present plans with the aim of establishing a target for 1 April 1988 significantly below that for 1 April 1984. You kindly agreed to re-examine your proposals, with particular reference to the future of your Architects and Buildings Group.

6. I am copying this letter to John Stradling Thomas and Alex Fletcher.

Yours sincerely

J. P. Rees

J. PETER REES

[Approved by the Chief Secretary]

CONFIDENTIAL



*Education file
to be taken to Sir K
Joseph letter of 16 Oct
and CST of 6 Oct*

NOTE OF A MEETING HELD IN THE CHIEF SECRETARY'S OFFICE AT 5:00 pm
ON WEDNESDAY 28 SEPTEMBER 1983

Those present: Chief Secretary (in the Chair)
Minister of State
Mr Bailey
Miss Kelley
Mr Mountfield
Mr Faulkner
Mr Gieve
Mrs Imber
Mr Ridley

Mr J Stradling Thomas MP (Parliamentary Secretary,
Welsh Office)

Mr Jeremiah

Mr A Stewart MP (Parliamentary Secretary, Scottish
Office)

Mr Mitchell - SED

Secretary of State for Education and Science
Mr Hancock
Mr Bird
Mr Jameson

1983 PUBLIC EXPENDITURE SURVEY - DES

DES Bids

The Secretary of State for Education and Science stressed that he agreed wholeheartedly with the overall strategy for public expenditure and was aware of the many pressures on other programmes. He had therefore re-examined his original bids in order to contain them to the bare minimum compatible with the Manifesto commitments and would accordingly be proposing significant reductions in the course of the meeting. Any savings he could make, beyond those to which he would refer later, would be needed to meet part of the cost of his proposals for restructuring teachers' salaries, as proposed in his minute of 21 September to the Prime Minister.

CONFIDENTIAL

Local Authority Capital Expenditure and Vote-Borne Capital Expenditure in Voluntary Schools

2. The Secretary of State said that, unlike other local authority capital programmes, that for education had not been underspent in recent years; indeed £47m of additional allocation had been fully spent in 1982-83. The programme had been cut back in recent years and there was now a need to expand it to accommodate:

i) adaptations to school buildings necessitated by closures and mergers which would reduce current costs;

ii) repair work required as a result of poor maintenance of schools and colleges in earlier years;

iii) major improvements to remedy defects in many schools built in the 1950s and 1960s.

He was now ready to reduce his bids in these areas from over £200m to something of the order of £50m-£70m in each year.

3. The Chief Secretary enquired whether there was not scope for local authorities to increase the amount of gross expenditure compatible with the net baseline by way of a vigorous programme of sales of surplus assets particularly where school closures released valuable urban sites. The Secretary of State said that the Department saw no reason to increase its present estimate of sales receipts. Sales were indeed dependent on authorities' ability to make modifications to the schools they intended to retain in order to permit closures and mergers to go ahead. A number of education authorities with deserved reputations for cost-effective provision were making representations for increased allocations to enable them to implement this strategy. He recognised that the local authority associations had (surprisingly) failed to take the matter up as a general issue, but there was no doubt as to the strength of feelings at individual authority level. He saw little prospect of altering the distribution of the total provision for the benefit of such authorities, since the baseline was already a third lower in cash than four or five years ago; it was largely pre-empted by the need for new schools in expanding areas such as Milton Keynes.

He appreciated that even his reduced bid might be difficult to accommodate, but since other local authority services had been seriously underspent in the past there would seem to be scope for substantial reallocation between services; perhaps this could be discussed collectively by the Ministers concerned. Greater use of authorities' power to vire between their allocations for individual services would not be a sufficient remedy, since the major underspenders were not on the whole education authorities.

4. The Chief Secretary said that in other circumstances he would have found this suggestion attractive. However, overriding priority had now to be given to controlling the aggregate of public expenditure and he could not afford to redeploy in favour of education the savings in local authority capital which he was seeking from colleagues.

Vote Capital - Universities

5. The Secretary of State said that he would be able to reduce his bid if the Treasury were to allow universities to retain the entirety of their receipts from sales of assets financed by Government grant and to raise money by mortgages on such assets. The bid covered primarily:

- capital spending on medical and dental schools
- £3m-£4m in each year. This was a DHSS programme to which the UGC contributed;
- rationalisation of the London colleges;
- expenditure to make good defective buildings
- £2m-£3m;
- increased equipment grants to make up a shortfall of spending in recent years, over which the scientific community was increasingly concerned; the concept of the 'well found laboratory' was at risk.

6. The Chief Secretary said that the programme of medical and dental school building had a poor track record of control and

there must be some doubt as to the need for provision currently planned in view of the cutbacks now being announced in NHS staffing. He would be reluctant to consider increased provision on this score at least until control procedures and present plans had been reviewed. Officials should examine the position further with the UGC and DHSS. He would be content for the rules on receipts to be looked at again, but the present regime dated only from 1982 and seemed on the face of it generous in view of the established principles of Government accounting; the universities were normally allowed to retain 50 per cent of receipts, but the figure could rise to 100 per cent in the case of rationalisation scheme. He noted that even an increase to 75 per cent would be helpful to the Secretary of State, but doubted whether it would prove possible to conclude a re-examination of the present arrangements within the very tight Survey timetable. If the case for increased provision for equipment was as strong as had been suggested, it was surprising that the UGC had not accorded it a greater priority within the existing baseline.

Information technology in further education

7. The Secretary of State said that he was anxious that action should be taken in further education to match the initiatives already taken in schools. However in view of the other pressures on public expenditure he was prepared to withdraw his request for an increase in his programme on that score.

Universities - current

8. The Secretary of State said that the bid covered a number of inescapable increases in university expenditure, arising from increases in national insurance and pension contributions, pay settlements (including the clinical dons' settlement, over which the universities had no effective control), incremental drift arising from the academics' unbalanced age structure, and the positive relative price effect observed on non-pay items such as books. For the longer term he was seeking to reduce the universities' dependence on private funding, and much effort was being devoted within the Department to devising appropriate means; but it was unrealistic to expect offsetting savings from this source during the Survey period. He was however proposing separately some reductions in the cost of student awards.

9. The Chief Secretary said that he was prepared for officials to consider further whether any items in this bid were genuinely inescapable. He noted however that any prospective savings in the cost of student awards would be needed in any event to offset the effect of student numbers exceeding earlier expectations.

Student awards

10. The Chief Secretary said that he accepted the Secretary of State's bid, which reflected the best present estimate of student numbers. Were that estimate at any time to fall, however, he would require corresponding reductions in the programme.

Adult and continuing education

11. The Secretary of State said that while additional provision was in his view highly desirable it was less than essential. He was therefore ready to withdraw the bid.

Science

12. The Secretary of State said that he attached particular importance to these bids. However, recognising the difficulties they would create for the Chief Secretary he had proposed to the Prime Minister that resources be found for his programme by way of a reduction in effort of defence R and D. The Chief Secretary said that he was not unsympathetic to this proposal, which was to be discussed at a meeting arranged by the Prime Minister for 19 October. Further discussion of the greater part of the bids could be resumed (if necessary) after that meeting; meanwhile, he was prepared to concede the element of the bid (£6 million/£8 million/£7 million in the three years) which was related to the increasing cost of international scientific collaboration.

II OPTIONS FOR REDUCTIONS

Student awards - reductions in grant

13. The Chief Secretary said that he had doubts as to whether the particular measure proposed by the Secretary of State - elimination

of the home/away differential - would be acceptable to colleagues. A package of individually modest and relatively uncontroversial measures would stand more chance of success. The Secretary of State endorsed this approach. Damage to the education service would be minimised if any reductions were concentrated as far as possible in this part of this programme, but experience in earlier years had demonstrated the political sensitivity of student grant. He considered that a negotiable scheme of reductions could be devised of the order of £20 million/£40 million/£50 million in the three years. Officials should be asked to work out the details, in consultation with SED. Even so colleagues' agreement could not be guaranteed. If it failed to materialise, he could not agree to seek equivalent savings elsewhere in his programme.

Open University

14. The Secretary of State said that abolition was not feasible. However, there was scope for potential savings in administration, perhaps course provision, and conceivably higher fees (though attention would have to be paid to the effects on demand); a forthcoming report from the visiting Committee should help to illuminate this. He did not consider however that savings could be realised before 1986-87. The Chief Secretary said that he had hoped that some reduction would be possible from 1984-85, but was content for officials to be left to examine the position further.

CERN - withdrawal

15. The Secretary of State said that he did not consider the option of withdrawal from CERN worth pursuing; CERN had an outstanding record in its field, one in which the UK was very strong; domestic facilities for high-energy particle physics had been abandoned because international collaboration gave demonstrably better value for money. The Chief Secretary agreed, but pointed out that the size of the UK commitment to international science had a bearing on the domestic programme it could afford.

Grant-aided colleges

16. The Secretary of State agreed that, as the Chief Secretary had suggested, savings of the order of £5 million a year should

be sought in the grant-aided colleges in view of their relatively high unit costs.

Universities

17. The Chief Secretary said that in addition to the reduction of £75 million in university grant he had proposed for 1986-87 he was now disposed to seek savings in administration (widely interpreted) and support services for the earlier years. Experience of recent scrutinies of such expenditure in Government R and D establishments and Research Councils suggested that some form of investigation of value for money in selected universities would be well worthwhile. Thereafter, a further round of rationalisation would clearly be necessary in view of the decline in student demand expected from the mid-1980s, and the opportunity should be taken to seek to tighten up on unit costs and increase private funding. He was pleased to see that the Secretary of State had drawn attention to these factors in his recent letter to the UGC and had asked them to contemplate the possibility of a 5-10 per cent reduction in income per pupil from UGC grant and student awards by the end of the decade. It was right that this should be reflected in a substantial reduction of provision in 1986-87. The Secretary of State said that he would reflect on the possibility of a value for money scrutiny in consultation with the new Chairman of the UGC but doubted whether there was much scope for savings in the first two years in view of the size of the reductions in funding the universities had recently been required to absorb. Thereafter, while he would hope to achieve important reductions in the medium to long term, he judged it unwise to reduce provision in the present Survey at a time when the UGC had barely begun the consultative exercise which he had commissioned. His letter to the UGC had made it clear that decisions had yet to be taken on the future level of university funding. He considered too that the non-university sector of higher education should be asked to bear an important share of the necessary adjustments to the coming decline in student demand; there were serious doubts about the quality of some institutions in that sector.

III MANPOWER

18. The Secretary of State said that he remained firmly of the view that an increase in H M Inspectorate represented the best opportunity available to central Government of securing value for money from the education service. A forthcoming report on local authority FHE provision would provide good evidence of this. He could not reduce his bid on this score. He was disappointed that the Treasury's proposals appeared to be based on an indiscriminate 'top down' approach in which Departmental manpower targets were being derived from a predetermined aggregate without regard to individual circumstances. The Chief Secretary and the Minister of State said that the policy agreed by Cabinet for the years after 1984 necessitated a combination of 'top down' and 'bottom up' approaches. This did not require that all Departments should be asked to reduce their manpower at the same rate, but it was the presumption that individual targets for 1 April 1988 should normally be substantially below those for 1 April 1984. How the Secretary of State determined priorities without such a target would be a matter for him, but it was noteworthy that the reported views of the recently retired Senior Chief Inspector on the ability of the Inspectorate to improve the system seemed at variance with what the Secretary of State had said. There was possibly more scope for efficiency savings; the Secretary of State's proposals also seemed to assume an unrealistically high level of staff in post relative to complement. The Secretary of State replied that in his view the efficiency of the Department compared very well with others, not excluding the Treasury; and that while recruitment in the Inspectorate had been delayed by recent uncertainties it would be vigorously pursued under the new Senior Chief Inspector. He would like officials to consider further the justification for the complement of the Architects and Buildings Group. He would review his staff requirements generally in the light of what the Chief Secretary and Minister of State had said.

IV THE LONGER TERM

19. The Secretary of State and the Chief Secretary agreed that significant savings should be possible in the university sector in 1987-88 and 1988-89; and that introduction of a

student loans scheme remained an attractive option for major savings in the next decade.

V NEXT STEPS

20. It was agreed that:

(i) officials should meet quickly to review factual points on the outstanding bids (other than those for science which would be considered at the Prime Minister's meeting) and to consider options for a package of savings on student awards;

(ii) the Secretary of State would examine the prospects for savings on the universities, consulting the Chairman of the UGC as appropriate, and reconsider his manpower proposals with particular reference to A and B Group;

(iii) bilateral contacts would be pursued with the aim of resolving outstanding issues as far as possible during the week beginning 3 October.

HE2 Division
HM Treasury
30 September 1983

POSITION ON BIDS AND SAVINGS REACHED AT MEETING

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
<u>Original bids</u>			
1. Local authority capital - schools	165	185	170
2. Local authority capital - further education	40	45	35
3. Vote capital - schools	15	15	15
4. Vote capital - universities	25	25	25
5. Information technology (IT) in further education (FE)	5	5	5
6. Universities - current	25	45	70
7. Student awards (agreed bid)	40	50	45
8. Adult and continuing education	5	10	10
9. Science:			
i. continuation of existing policies	15	20	30
ii. policy developments	20	35	45
Total additional bids	355	435	450
<u>Bids as revised during meeting</u>			
1. Local authority capital - schools)			
2. Local authority capital - further education)	50	50	50
3. Vote capital... - schools)			
4. Vote capital - universities	25	25	25
6. Universities - current	25	45	70
7. Student awards (agreed bid)	40	50	45
9. Science:			
i. continuation of existing policies	15	20	30
ii. policy developments	20	35	45
Total revised bids	175	225	265

Agreed bids

7. Student awards	40	50	45
9. (part) International Subscriptions	6	8	7
Total agreed bids	46	58	52

Options for reductionsOriginal DES options:

1. Student awards - reductions in grant	20	45	105
2. Abolition of Open University	25	60	60
3. Withdrawal from European Centre for Nuclear Research	-	-	25
Total DES options	45	105	190

Original Treasury Options:

1. Grant aided colleges	5	5	} 80
2. Universities	-	-	
Total Treasury options	5	5	80

Options agreed at meeting

1. Student awards	20	40	50
2. Open University	[3]	[3]	[5](approx)
3. Direct Grant Colleges	5	5	5
Total agreed reductions	28	48	60 (approx)

Options to be further examined

Administrative and other savings in universities	[?]	[?]	75
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NOTED

Treasury Chambers, Parliament Street, SW1P 3AG

6th October 1983

Rt Hon Sir Keith Joseph M.P.
 Secretary of State for
 Education and Science
 Elizabeth House
 York Road
 London SE1 7PH

Dear Secretary of State

1983 SURVEY

Thank you for your letter of 30 September. (4 October)

I am grateful to you for the further efforts you have made to meet me. I have considered carefully whether, for my part, I can offer you some additional help without putting at risk the overall objectives we have set ourselves for this year's Survey. Leaving out of account the balance of your science bid, which we are to discuss with the Prime Minister on 19 October, the total of your bids amounts to:

	£ million		
	1984-85	1985-86	1986-87
	137	150	154

- against which you are offering savings of:

32	61	82
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(The additional across-the-board savings resulting from our decision on public sector pay are of course to be incorporated in the baseline, and are not relevant to the negotiations on individual services).

- implying a net addition to the baseline of:

101	89	72
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2. As I said in my letter of 30 September, it will be very difficult to contemplate net additions to your baseline for the first two years and I had been hoping for some reduction in the final year. I might none the less have felt able to offer some very modest improvement on my position had I had any reason to think that it would enable us to reach agreement. I fear however that the sums at stake are too large; and that we must now leave the issues for collective discussion unless you feel able on reflection to modify your position.

3. I have already responded separately to your minute to the Prime Minister about teachers' pay.

4. I am copying this letter to John Stradling Thomas and Allan Stewart.

Yours sincerely

J. Gier

for PETER REES.

[Approved by the Chief Secretary]



DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

3

4 October 1983

Dear Peter,

1983 SURVEY

Thank you for your letter of 30 September.

DES and Treasury officials have discussed the outstanding issues on expenditure, and have narrowed the gap between us very considerably. The attached table sets out the revised figures that officials here put forward, which I endorse.

You will see that, since our meeting on 28 September, I have substantially reduced my bids for university capital and current expenditure; accepted the need for savings after 1984-85 on the Open University; and also accepted the case for some "efficiency" savings in the universities, provided that the baseline from which they are scored is realistic. Treasury officials have more details of the figures.

There are I think now only two major issues between us:-

Local authority capital: Last week, in proposing £50m a year, I reduced my original bid by three quarters. You acknowledged the merits of the case, which is essentially that the stock is deteriorating far too fast and that savings in current expenditure depend on extra capital expenditure. I have to be in a position to secure the savings I make possible by decisions on school closures which I have taken and will continue to take.

/University

The Rt Hon Peter Rees QC MP
 Chief Secretary
 Treasury
 Parliament Street
 LONDON SW1P 3AG

University current expenditure 1986-87: You have again proposed that we should embark now on a further round of cuts in university funding, beginning in 1986-87. I am certainly prepared to consider this, and in the light of our experience with the previous round it is clearly important to give early warning of our intentions. But I look to the UGC for advice on the scope for savings and, as Treasury officials will know, they have just embarked on a strategy exercise which will include the examination of the scope for substantial reductions in taxpayer support. It is not reasonable to ask me to pre-empt that exercise by committing myself in this year's PES to a particular level of policy savings in 1986-87. Indeed, to do so would conflict with the undertakings which the Prime Minister gave in her letter of 7 June to the AUT. But, as you will see, I have accepted the need for efficiency savings which rise to over £20m by 1986-87.

You will know from my letter of 6 July that, following the election, I carefully scrutinised the bids submitted to me by officials here before putting them forward to colleagues. I have now reduced those for Vote and local authority capital expenditure by more than half, and I do not think you ought to press me further. The Government was elected on a manifesto which claimed credit for increased expenditure per child and greater access to higher education and committed us to pressing on with the vital task of raising standards. My programme must be judged in this context and, as you know from my minute of 21 September to the Prime Minister, I need every saving I can find to help secure a better pay structure for teachers.

On DES manpower, officials here will be in touch shortly with the Treasury.

I am copying this to John Stradling Thomas and Allan Stewart.

Yours ever,

Kear

	£m		
	1984-85	1985-86	1986-87
<u>Additions</u>			
<u>A - already agreed</u>			
Student grants	40	50	45
Science (international subscriptions)*	6	8	7
	<hr/>	<hr/>	<hr/>
	46	58	52
	<hr/>	<hr/>	<hr/>
<u>B - others</u>			
Local authority capital (including aided schools)	50	50	50
University capital**	12	12	12
University current	25	30	40
	<hr/>	<hr/>	<hr/>
	87	92	102
	<hr/>	<hr/>	<hr/>
<u>C - reductions</u>			
Grant aided institutions (including O.U.)	5	7	10
University current (efficiency)	7	14	22
Student grants***	20	40	50
3% pay factor	23	24	25
	<hr/>	<hr/>	<hr/>
	55	85	107
	<hr/>	<hr/>	<hr/>

*Remainder of additional bid to be discussed on 19 October

**With relaxation on capital receipts

***No alternative savings if rejected by Cabinet.