



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Kenneth Baker MP  
Secretary of State for Education and Science  
Department of Education and Science  
Elizabeth House  
York Road  
LONDON SE1 7PH

10057  
30 October 1986

NBM.

Dear Kenneth,

#### 1986 PUBLIC EXPENDITURE SURVEY

This letter records the basis on which we have reached agreement on your programme. The agreed changes are set out in the attached annex.

#### University pay restructuring

This does not of course feature in the annex, because you agreed to withdraw your Survey bid. You did so on the following basis, which has been spelt out in more detail in correspondence between our officials:

(a) You would be free to negotiate for a restructuring deal within the amounts in the bid (£40/56/71 million in the 3 Survey years). In doing so, you would not put these amounts on the table. You would indicate that extra money would be made available if a satisfactory deal could be reached, but would make clear that the amount was a good deal less than the CVCP and AUT had in mind. The Treasury would be consulted about what was to be said on these points.

(b) In considering whether any deal was satisfactory, your Department would not be expected to have secured concessions which are not in the present Committee A proposals, although that did not exclude the need to clarify uncertainties and ambiguities in a satisfactory way. But features which we would expect to see include provision to vary pay as between disciplines and to reflect

SECRET

performance, as well as a clear expectation that the universities would actually use this flexibility, that the agreement would not lead to grade drift, and that it would be accepted by the AUT membership.

(c) If we agreed that the deal was satisfactory in those terms, you would have access to the Reserve for the amounts needed to finance it in 1987-88, while the costs in later years would be treated as a technical bid in the 1987 Survey. The amounts of £40/56/71 million would be maxima, and I would not be prepared or expected to make more available.

You indicated at our bilateral meeting on 25 September that what you could negotiate would depend on the general increase in funding for the universities. In the light of what we have agreed on that, as set out in the annex, I am assuming that you will have no difficulty on that score.

### **Universities**

I agreed to the substantial additions shown in the annex on the basis that they would be clearly linked both in substance and in public presentation to the conditions set out in Sir Keith Joseph's statement of 20 May, and that no part of the addition would be publicly linked to additional pay. My agreement was also on the basis that a substantial proportion of the additional funds would be allocated for specific purposes as set out in your letter of 9 September, including the provision for equipment, building maintenance, and library expenditure there specified, together with provision for rationalisation, early retirement, and redundancy costs.

### **Science**

I do not think that I need add any comment on this item.

### **Local authority and voluntary schools capital**

We agreed that the increase in provision for local authority capital should be limited to the £57 million needed to give allocations in 1987-88 at the same level as in the current year. I separately agreed an increase of £10 million for voluntary schools capital expenditure.

### **City Technological Colleges**

The amounts shown in the annex are maxima, based on the establishment of 20 schools. Expenditure can be expected to be lower if there are fewer schools and/or the timetable for setting them up slips. The figures include related provision for running costs, on the basis that DES will require an additional 50 staff for this purpose; but there again the figures are subject to review in the light of progress with setting up the schools and the extent of the additional work for your Department in running them.

**SECRET**

## Student awards

The agreed additions represent the fees element of your original bid. You also agreed that the £8 million estimating saving on student awards should be deducted from your programme.

## Other bids

We agreed a figure of £8 million a year for you to allocate among your remaining bids. We also agreed that we would both resist any pressure to secure funds for the EC ERASMUS proposal.

## Running costs

We are agreed that officials should discuss this further, with the aim of reflecting in the Survey years the broad consequential of the increase of 30 in the manpower ceiling and of £1 million in running costs which we have agreed for the current year, as set out in my letter of 2 October.

## General

Formally, of course, the agreement recorded in this letter is ad referendum to Cabinet. You will no doubt be considering how the changes in your programme might best be publicly presented, but, with the exception of City Technological Colleges, those changes will be for announcement in the context of the Autumn Statement once Cabinet has approved the outcome of the Survey. I know you regard it as really most important that selective information does not emerge at any earlier stage, and I fully share that view.

I am copying this letter to the Prime Minister, the Lord President, and the Secretaries of State for Scotland, Wales, and Northern Ireland.

*Yours,*  
*JH*

JOHN MacGREGOR

SECRET

## AGREED CHANGES TO DES PROGRAMME

	1987-88	1988-89	£million 1989-90
Universities	65	72	81
Science	20	20	20
Local authority capital	57	57	57
Voluntary schools capital	10	10	10
City Technological Colleges	4	19	33
Student Awards	3	5	7
Student awards (estimating)	- 8	- 8	- 8
Other bids (excl running costs)	<u>8</u>	<u>8</u>	<u>8</u>
Total	159	183	208