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John Major
PUBLIC EXPENDITURE SURVEY 1989

1. Our education reforms are winning public support. The reforms, together with that support, will be at risk if we do not provide the necessary resources for each sector of education. I have reviewed my programme with care, and my additional bids - all of which carry high priority - are listed below. I appreciate that the bids are substantial. They include three major elements which I believe we have to meet:-

- a) there are the agreed bids, our commitments including student loans, and estimating changes for mandatory student awards as more students enter higher education. These requirements alone mean that I need nearly £300m in 1990-91.
- b) increased costs have eaten into the programmes which we have agreed in successive Public Expenditure Surveys. The financial viability of institutions in higher education remains on a knife edge. While there is support for less reliance on public funds, there is concern that the pace of change is damaging our universities and polytechnics. In higher education and science, I need nearly £200m in 1990-91 just to maintain the targets we have set ourselves.
- c) as economic growth has allowed personal standards of living to improve, parents, students and pupils are unwilling to accept that we cannot afford to do something about shabby, poorly maintained buildings and equipment which are present in all sectors of education. I must reverse the deterioration over the last decade in our capital stock. I need to be able to improve and expand facilities in schools for science and technology in the National Curriculum. Across all sectors, and allowing for forecast costs, I assess that I need some £600m for capital in 1990-91.

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	1990-91	£ million 1991-92	1992-93
<u>Agreed bid</u>			
University pay	35	38	39
Sanctuary Buildings	8	-	-
<u>Commitments</u>			
BAS ship	17	1	-
VAT on fuel and power	13	17	18
Student loans ¹	229	294	320
EC initiatives	8	8	8
<u>Additional bids</u>			
<u>Specific grants:</u>			
Inner London Boroughs	5	-	-
Travellers	5	8	8
<u>Schools and FE:</u>			
Teacher supply measures	3	3	3
Grant-maintained schools	25	49	69
City Technology Colleges	42	13	7
Assisted Places Scheme	2	4	6
<u>Maintained sector capital:</u>			
a) LEA schools and FE	406	575	705
b) Voluntary aided sector	39	61	77
Continuing education	12	14	14
<u>Higher education:</u>			
Universities	127	141	175
PCFC sector	136	139	141
Student awards ²	90	117	115
Science:	109	140	142
<u>Other:</u>			
Publicity	16	14	13
Running costs	7	16	18
Administration capital	0.5	0.5	2

¹ see paragraph 6

² in addition to the technical increase in the baseline agreed before the Survey, which restores the level agreed last year

2. As I emphasised last year, I have very limited room for manoeuvre within my programme. Higher education, including awards, and science takes up some three-quarters of my programme. Much of the rest is committed. I need some flexibility for smaller bids of less than about £1m which I have left out. There is no way in which I can accommodate even the smaller bids in the list above.

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CommitmentsBRITISH ANTARCTIC SURVEY SHIP

	1990-91	£ million 1991-92	1992-93
Purchase of "James Clark Ross"	17.2	1.4	-

3. You will recall that the cost of this ship proved higher than we had anticipated because of market conditions. I had to give this priority within the science budget because of the wider implications of the presence of the ship in the South Atlantic. I agree with the view of the scientific community that our main programme of research should not suffer as a result. Before we consider the size of the science budget for future years, I have to ask first of all that you restore to my baseline the extra cost of this ship.

VALUE ADDED TAX ON FUEL AND POWER

	1990-91	£ million 1991-92	1992-93
Non-exempt funded bodies	13.5	17	17.5

4. We agreed in last year's Survey that this bid, to cover the costs of the imposition of VAT on fuel and power for non-LEA educational institutions and other directly funded bodies, should be deferred until the effects of the European Court of Justice's decision were clear; and that you would consider sympathetically a claim on the Reserve for any such costs which might fall in 1989-90. It is now the case that VAT will be levied on fuel and power from July 1 1990. I trust that, given your undertaking, you will be able to meet this bid in full.

STUDENT LOANS

	1990-91	£ million 1991-92	1992-93
<u>Outgoings (net of repayments)</u>			
Agreed bid	102.6	166.0	188.2
Estimating changes	5.8	9.8	9.8
Up-rating of loan entitlement	5.5	8.3	8.1
Total	<u>113.9</u>	<u>184.1</u>	<u>206.1</u>
<u>Administration</u>	20.0	15.0	16.0
<u>Access Funds</u>	24.0	19.3	19.7
<u>Loans for part-timers (net of repayments)</u>	<u>71.0</u>	<u>76.0</u>	<u>78.0</u>
Total	<u>228.9</u>	<u>294.4</u>	<u>319.8</u>

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5. Our proposals in "Top-up Loans for Students" (Cm 520) will lead to substantial savings in due course. You have agreed in principle to meet the additional short-term costs, including provision for sustaining access to higher education. My bid takes account of a PES transfer from DSS of £10m per full year towards the cost of the Access Funds, which are an integral component of the top-up loans system. The total costs will be further offset by the very substantial DSS savings in benefit expenditure. There will also of course be significant savings after 1990-91 when the maintenance grant will be frozen in cash terms.

6. The bid is based on the agreed figures set out in Cm 520, adjusted for financial years, with some modest additions. First, the bid takes account of the latest forecast of student numbers. Second, it is based on a maximum loan for most students in the academic year 1990-91 of £440, rather than the illustrative figure of £420 used in the White Paper. That change is essential to preserve the spending power of the loan given the actual and predicted movements in the GDP deflator. Third, we must fund the administration costs of the loan scheme: those figures will have been refined by the time we meet, in the light of the decisions we shall have reached by then on the way in which the scheme will be run. Lastly, I am convinced that we need to increase the level of support for the Access Funds beyond the £15m agreed between us for the first full academic year. The responses to the White Paper have brought home to us the degree of hardship which will be caused to many students by the withdrawal of Housing Benefit. We shall face enormous pressure on this issue in taking our Student Support Bill through Parliament, and I judge that we shall need to be able to point to enhanced Access Funds if we are to persuade Parliament and the country that our policy is right.

7. I am also seeking provision to allow the introduction of a modest loan for part-time higher education students. They are a key group: strongly motivated and generally already playing an important part in the economy; potentially disadvantaged by the move to higher publicly funded fees, since we cannot be sure that all institutions will protect their position; and crucial to the development of better access to higher education from non-traditional groups. I have in mind a loan facility of £300 to help with tuition fees and essential course costs such as books and travel. Some small expenditure here will reap big dividends later as the economy faces increasingly severe skill shortages.

EUROPEAN COMMUNITY INITIATIVES

		£ million	
	1990-91	1991-92	1992-93
EC initiatives	8.1	8.1	8.1

8. Most of this bid reflects the cost of ERASMUS. As you may remember, I was not willing to give this programme priority over my domestic programmes but, in the light of pressure from the European Council, I ultimately had no option but to go along with the views of others. I would not want to quarrel with our arrangements for

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handling expenditure on EC programmes but, in this case, we have had to make provision by reducing the baseline in higher education, mainly the universities. The ERASMUS programme of joint courses with universities in other EC countries represents an additional claim on the resources of our HE institutions. Unless I can restore my baseline, the impact of this EC programme will be to undermine still further the financial viability of the universities. At the time I was forced to accept ERASMUS, you agreed a special arrangement under which the costs for the first three years would be considered separately in our Survey discussions. I hope that you will stand by that agreement, and restore my baseline. I am not of course bidding at this stage for LINGUA, since the costs for this programme will fall later.

SPECIFIC GRANTS

		£ million	
	1990-91	1991-92	1992-93
Inner London Boroughs	5	-	-
Travellers	5	8	8

9. We have already agreed provision for my main specific grants - Education Support Grants and LEA Training Grants - in 1990-91. These programmes have proved to be crucial in redirecting resources in support of my education reforms. The baseline for later years declines in real terms. This will cause me real difficulty, but I am prepared to see whether I can target the money even more effectively to enable the Government's priorities to be met within the baseline. I cannot be sure that I shall have enough but I am not entering a bid at this stage. During the Survey, we shall need to settle a PES transfer in connection with the transfer of responsibility for Section 11 grant: I am in touch separately with Douglas Hurd about this.

10. That leaves two small requirements. First, there will be some grant payments outstanding in 1990-91 to cover the costs of the Inner London Boroughs in preparing to take on their responsibilities for education. The expenditure scored in my plans for 1989-90 but, under the "new planning total" arrangements, I have to make grant provision in 1990-91. I need £5m for that.

11. Second, I need money for the new specific grant for the education of traveller children and refugees. You agreed that I should take powers in the Education Reform Act to make these grants available. These grants will effectively replace current pooling arrangements which cannot continue alongside the new financial regime for local authorities. Our latest estimate is that we need to support expenditure of nearly £10m annually. This would be sufficient to allow for the admission of extra Vietnamese refugees from Hong Kong over the next two or three years. You will recall that I raised the cost implications for the education service at the time the decision about these refugees was being taken. There is a reluctance on the part of local authorities to make appropriate provision for travellers and refugees. The new financial regime may accentuate that reluctance. I am convinced

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that we need to offer a grant rate of 75%. My bid for grant above is based on that rate.

12. In order to ensure the effective use of the grant, I need to be able to approach the local authorities about the programme without delay. For that reason, my officials have already been in touch with yours with the necessary supporting information. I hope therefore that you will be able to agree this bid and the bid for Inner London Boroughs as an immediate response to this letter. That would then settle my specific grant programme.

TEACHER SHORTAGES

		£ million	
	1990-91	1991-92	1992-93
Action programme	2.8	3	3

13. Our education reforms for schools will fail if we lack suitable teachers. Demands will increase with rising pupil numbers from 1991. The introduction of the National Curriculum will lead to still greater demands for teachers of maths, science, technology and modern languages - where there are already serious shortages.

14. My action programme is based on a wide range of initiatives so that we can take advantage of all possible sources of recruitment, including mature entrants, former teachers and teachers from overseas. The programme is already achieving some improvement in recruitment but I shall need to expand it to meet the further demands. That is the purpose of my bid. I also plan to mount a major publicity campaign aimed at raising the status of education and highlighting the need for teachers and the opportunities available within teaching. I return to this in my bid for publicity at the end of this letter (paragraph 67).

GRANT-MAINTAINED SCHOOLS

		£ million	
	1990-91	1991-92	1992-93
Recurrent	12	20	24
Capital	13	29	45
	<u>25</u>	<u>49</u>	<u>69</u>

15. The financial effects of allowing schools to become grant-maintained are broadly neutral because the annual maintenance grant to each school is recovered from the former maintaining LEA. But if the policy is to be successful - and my present proposals are based on 50 schools by next April rising rapidly to 300 schools by 1992-93 - there are some costs which must be met directly by the Exchequer:

- a) the costs of making the transition to grant-maintained status;
- b) costs which fall outside the annual maintenance grant, but which must be met if grant-maintained schools are not to be worse off than LEA-maintained ones.

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In line with a), my bid therefore contains modest provision for the funding of ballots of parents, for certain setting-up costs for schools whose proposals are approved and for a small fund to assist with dismissals, premature retirements and voluntary severances initiated during the school's first year after incorporation. My bid also includes, in respect of b), a sum to cover the equivalent of Education Support Grants and LEA Training Grants, the costs of VAT to the extent that these are not covered within annual maintenance grant, and a small reserve to allow me to assist schools with emergency needs arising from circumstances beyond their control. Most of these are not additional costs: my provision for ESGs and LEATGs would otherwise need to be increased, and the VAT costs will return to the Exchequer.

16. My estimates also include provision for further grant to the Grant-Maintained Schools Trust. The Trust is playing a valuable promotional role which is being financed privately. Our grant is needed for the essential additional role of assisting schools approved for grant-maintained status to make efficient use of public funds and to cope with their new legal and financial responsibilities. I expect that much of the Trust's work will eventually be funded through charges to schools, but pump-priming in the early years is essential if schools are to get off to a good start in their new status.

17. I expect to come under heavy pressure to provide capital grants for grant-maintained schools. Those schools may come into the sector with a history of inadequately-met capital requirements: some have been under threat of reorganisation and have been starved of capital investment for some years. I am determined that they should have a sum per annum comparable to expected expenditure on local authority and voluntary aided schools, including expenditure financed from capital receipts. My bid seeks to ensure this.

CITY TECHNOLOGY COLLEGES

	£ million		
	1990-91	1991-92	1992-93
	42	13	7

18. This initiative has now taken off. I have confirmed sponsorship offers to date of nearly £40m. We shall have 3 colleges open by September and are planning for a further 7 in September 1990. The sponsorship money will cover at least 9 further projects so we are within sight of our target of 20 CTCs by September 1991. All the sponsors are pressing to get their schools open by our target date of September 1991 if at all possible.

19. This very success has brought with it the problem of bunching for capital spending. I have been able to keep within my programme so far and should just be able to do so for the current year as well. But as my bid shows, I need much more money in 1990-91 because we shall be making some capital contribution in that year for all 20 projects. Thereafter, spending will fall back and will be mainly on the recurrent costs of maintaining the new Colleges. In the longer term, these recurrent costs will be offset by reductions in local

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authorities who will not need to provide for some 20,000 secondary school places across the country.

20. All the sponsors are prepared to find at least 20% of the capital costs of each project - in most cases much more - and to continue to raise endowment funds after the schools open. Unless I have extra money, I shall have to ask sponsors to delay their investment. But I clearly do not want to have to dampen in this way their enthusiasm for this important Government initiative.

ASSISTED PLACES SCHEME

	£ million		
	1990-91	1991-92	1992-93
	1.7	4.4	6.3

21. I have already set aside money to meet our Manifesto commitment, namely a target of 35,000 places in this scheme. But the money is not enough because fee increases in the participating schools are running beyond our forecasts. The baseline assumes an average fee increase of 7% this September. The indications now available are that this average increase will be at least 11%. Given the increasing demand for independent school places, I do not think that we can reasonably assume that fee increases will fall substantially in the following years. Neither do I think that it would be reasonable for me to attempt to limit fee increases for assisted pupils. Hence I need extra money to meet estimating changes in the cost of the scheme.

NATIONAL CURRICULUM

22. Effective implementation of the National Curriculum is, of course, fundamental to all our policy objectives for education. Last year we agreed baseline provision for central National Curriculum costs of £35m in 1990-91, rising to £37m in 1992-93. It now seems unlikely that this baseline will contain the substantial costs which will arise as the National Curriculum assessment arrangements come into operation from 1991-92. I am not, however, at this stage, registering an additional bid for 1991-92 and beyond. There are two major elements of uncertainty. First, I await advice from the Schools Examination and Assessment Council on the operation of the assessment arrangements: key issues bearing on running costs can only be resolved in the light of that advice, which I am unlikely to have in final form before the end of the calendar year. Second, we need to resolve whether the running costs of the assessment system should be met from the Department's Vote or from local authority expenditure. A number of issues arise here, which we cannot resolve quickly. For these reasons, I am not bidding in this round for additional resources for implementation of the National Curriculum, but you will wish to note that there will be major issues to address in next year's expenditure survey.

MAINTAINED SECTOR CAPITAL EXPENDITURE
(excluding grant-maintained schools)

	1990-91	£ million 1991-92	1992-93
Additional resources:			
Voluntary aided schools	39	61	77
Local authority: schools	265	445	571
Local authority: FE	126	130	134
Other educational services	<u>15</u>	<u>-</u>	<u>-</u>
TOTAL	445	636	782

a) Schools

Schools (VA: grant)	39	61	77
Schools (LEA: credit approvals)	<u>265</u>	<u>445</u>	<u>571</u>
Total	304	506	648

23. Investment in school buildings has been inadequate for many years. The age profile of the school building stock creates particular problems which do not apply to other services. A high proportion of school buildings was constructed rapidly and to tight cost restrictions in the 50s and 60s to accommodate the enormous rise in the school population at that time. Little or nothing has been spent on those buildings since and major components, such as roofs, windows and heating systems, are all reaching the end of their working lives at the same time. In 1987 the School Buildings Survey revealed a backlog of well over £2 billion of urgent improvement work. Between 1986-87 and 1987-88 there was actually a cash reduction in capital expenditure on education. In 1988-89 I launched a modest improvement programme to start to remedy some of the worst of the accumulated defects; but nearly all the benefits were wiped out by a 16% increase in building costs. The remaining increase of 3% in real terms was largely used to meet basic need for additional school places in areas of population growth. As pupil numbers rise again, basic need is digging ever deeper into the programme: Cambridgeshire, which needs to build the equivalent of 20 new primary schools over the next decade to accommodate anticipated growth, is only one example. Inflation is also biting sharply; the real value of education allocations fell by at least 5.5% in 1989-90.

24. Because there has been no increase in the purchasing power of expenditure available for school improvements there is a mounting backlog of essential work, with the result that recurrent expenditure on emergency repairs is beginning to outstrip increased provision for planned maintenance. The NAO will be reporting on this later in the year. Some LEAs without access to substantial receipts are in danger of defaulting on statutory obligations. I am unable to cover LEA plans to remove surplus places except where those plans are associated with approved statutory proposals; and I am now having to defer the implementation of statutory proposals

because I do not have sufficient allocations in reserve to meet the costs in the current financial year. This will increase my obligations in 1990-91.

25. I am also being forced to reject other reorganisation schemes offering an excellent rate of return because they require capital allocations which I do not have. We are encouraging local authorities to be more efficient, but are not giving them the means to achieve this. A stream of deputations - many of our supporters - have pointed out the contradiction in our policies. I have been unable to produce a convincing answer.

26. The introduction of the new capital control system is likely to make matters even worse. Many of the improvements which have been carried out in recent years have been financed by capital receipts. For many authorities this additional spending power will now be reduced. It is therefore essential that Annual Capital Guidelines are sufficient:

- to cover the contractual commitments which flow from earlier allocations;
- to meet statutory obligations incurred but not implemented in 1989-90; and
- to cover new statutory obligations in 1990-91.

27. I also see the need to provide for a significant increase in spending on structural defects; and to enable LEAs to make significant progress in adapting school buildings to meet the statutory requirements of the National Curriculum.

28. Since all pupils will have to study science from 5-16, more laboratories are needed in secondary schools; and adaptations are required in primary schools because science cannot be taught in rooms without taps and in many primary schools classrooms lack this basic amenity. Adaptations will also be required in both primary and secondary schools to enable all pupils to study technology. We cannot put our education reforms at risk for lack of the necessary capital investment.

b) Further and higher education

	£ million		
	1990-91	1991-92	1992-93
Additional credit approvals:	126	130	134

29. A consensus is emerging among employers and in Government that all 16-19 year olds need to receive some form of systematic education and training leading to a worthwhile qualification. As the demographic decline begins to affect the supply of young people, the retraining of the adult workforce is also emerging as a priority. This is why my February speech to the Association of Colleges of Further and Higher Education (ACFHE) called for increases in participation and attainment levels in post-16 education. These themes will be driven home publicly by the CBI in

the Autumn when its Task Force on vocational education and training reports.

30. FE colleges have the potential to turn these aspirations into reality. The Education Reform Act will set them up with new employer-dominated governing bodies and a greater degree of freedom from the LEA so that they can compete for new business. If they succeed, they will generate significant new income for themselves. But the FE sector will be gravely disadvantaged without sufficient capital investment - a point being made frequently by the colleges. Employers will not want to use the colleges if the courses on offer make use of obsolete equipment or are housed in unsuitable buildings. Without properly equipped colleges, our chances of tackling the nation's skill shortages are seriously hampered.

31. The colleges remaining in the LEA sector have had very little capital investment for many years. Over the past 3 years, apart from projects involving statutory school reorganisations and a handful of other projects, I have been unable to make any allocations for new building starts in LEA colleges. And last year I could not make any allocations for new equipment, apart from those associated with Education Support Grants.

32. Last year capital allocations for FE amounted to only £30 million. Over the past 5 years total allocations have amounted to only 25% of assessed need to spend. And while actual expenditure by local authorities has exceeded capital allocations, it still only represents 5% of overall local authority expenditure on further education. The result reported by HMI is a decline in the fabric and equipment of some colleges, particularly in specialist areas. Some colleges have marked deficiencies in the supply of up-to-date equipment. Some of their buildings are totally unsuited to present-day needs.

33. My objective is not just to halt the deterioration in building and equipment stocks, but to achieve a marked improvement in both over the three-year PES period. With the increases proposed, colleges will be able to increase their responsiveness, generate more income, and increase their efficiency in the use of buildings and equipment, thus reducing running costs.

c) Other educational services: Inner London boroughs

		£ million	
	1990-91	1991-92	1992-93
Other educational services	15	-	-

34. The third element of this bid for local authority capital is to assist the inner London Boroughs in establishing education departments to take on responsibility from the ILEA in April 1990. If the new LEAs are to achieve the management improvements we want, their education departments - including the inspectorate and careers service - must be properly housed. I am taking stringent action to ensure that inherited ILEA property is used effectively, but this source meets only part of the boroughs' needs. We made a modest advance to them from GLC receipts during 1989-90, but most

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of them will need to spend more next year to avoid unsatisfactory make-shift provision. I shall therefore have to issue additional ACGs from my youth and other educational services block. We are currently updating estimates made at the turn of the year of the costs involved. It is however already clear that the sum I am requesting is the bare minimum. It will still leave several boroughs having to raid capital receipts earmarked for other services.

35. I have considered whether my proposals would risk short-term overheating in the building industry. My advice from expert bodies suggests not, given the general downturn following the decline in the rate of house price increases.

CONTINUING EDUCATION

	1990-91	£ million 1991-92	1992-93
Developing new courses	12	14	14

36. Building on the successful experiences of the PICKUP programme, my target is for 1 in 10 of the working population to undertake full-cost vocational continuing education by 1992. My bid would enable higher and further education institutions to promote and develop the courses necessary to meet this target - in association with industry and commerce.

HIGHER EDUCATION

37. With polytechnics out of local government, we can now look at higher education funding across the board. Institutions are now exposed to greater market forces - through the new approaches to funding, the shift from grant to fees, the encouragement of private earnings, and top-up loans. We are beginning to break the dependency culture.

38. Even so, universities and polytechnics - as in all other countries - will continue to rely on public funds for a substantial proportion of their income. The output in terms of qualified graduates continues to grow. We have said that we want that to be maintained. There have been important efficiency gains which help to make it possible. But our higher education policies and financial viability in both sectors are at risk mainly because increased costs have accentuated the decline in public funding in real terms. I therefore have to bid for substantial sums.

39. The following bids for the Funding Councils are based on current tuition fee levels. The effect of the planned increase in fees will be neutral in terms of public expenditure. It will however require adjustments within my baseline programme and in the allocation of additional sums agreed during the Survey.

UNIVERSITIES1. Universities Recurrenta) Universities Funding Council

	1990-91	£ million 1991-92	1992-93
Securing viability	67	79	80
Management education ¹	5	5	5
Computerisation	5	15	30
Continuing restructuring	-	-	20
Deferred maintenance	45	45	45
UFC Running costs (including relocation)	1	1	-
Total	<u>123</u>	<u>145</u>	<u>180</u>
Reduced rates requirement	<u>-48.5</u>	<u>-49.7</u>	<u>-50.9</u>
Net recurrent bid	74.5	95.3	129.1

¹ See paragraph 54 below

40. The restructuring programme which we agreed in 1987 is well on course. Plans for the loss of 2,000 academic staff posts and the appointment of some 500 new staff are being implemented on target. There have been 35 subject reviews, a new appointment scheme, and a series of management reforms to improve efficiency. Chart 12.13 in the recent Expenditure White Paper Cm 612 showed that income from sources other than public funds has increased steadily and now accounts for one quarter of total expenditure. But our target of achieving financial balance for the universities by the end of 1990-91 has been knocked off course by increased costs and a higher than expected output.

41. Both the last two academic pay settlements (in 1987 and again this year) have required an injection of additional funds to enable the employers to make a sustainable offer. We cannot go on like this. It encourages both parties in the pay negotiations to look first to the Government for more. It undermines our key policy which is to encourage universities towards greater financial independence. So my bid to achieve financial viability allows for the likely outcome of the forthcoming pay round, given the way in which market factors are moving against the employers. I shall again insist that a significant element of any pay increase in 1990-91 is applied selectively to pay professors and lecturers according to merit and to deal with recruitment problems in particular disciplines.

42. Even with the extra money for pay, the universities are finding that increased costs, including those arising from buoyant student numbers, cannot be met in full through the improvements in efficiency, restructuring and increased income from other sources. The UGC/UFC is being forced to make special one-off payments to institutions in difficulty thus making things even more difficult

for the rest. London is the latest in the queue for special treatment. We are seeing what we have already seen in the maintained sector, namely a deferment of the replacement of equipment and the maintenance of buildings: the UFC professional staff advise that nearly £250m is needed to bring university buildings up to a satisfactory and safe condition.

43. Without additional funds, the only solution is more restructuring. But that requires even more funds in the short term to cover redundancy costs, and the UFC will say that more staff costs will damage academic quality. No one will understand why we should want to see a further reduction in the total number of academic posts, when our policy is to widen access. So I am clear that we should make it possible to stick to the targets of our agreed restructuring programme. The main elements of my bid are based on this.

44. There are two smaller but important measures which would offer some limited encouragement to the universities, in initiatives that will yield efficiency gains over time. I want to encourage universities to improve the age structure of their staff. 70% of all dons are aged over 40: a major problem of renewal and replacement is building up. The 1960s bulge will need to be smoothed out, and this may best be done by an extension to the New Academic Appointments Scheme. Another important point which I am keen to promote is extending information technology. Computer networks - much like that working so successfully in this Department - would underpin efficient administration and good teaching in the universities.

45. Finally I can offer a reduced requirement of some £50m a year as a result of the extra concession on universities' rates from April 1990 onwards. This can be seen as a reduced cost for universities to offset recent increases in their rates bill and other cost increases. If we take away the benefit of reductions in cost and leave universities to face increases, we shall be accused of unfairness. So I am showing the reduced requirement as an offset to my bid.

b) Open University recurrent

	1990-91	£ million 1991-92	1992-93
Open University	5.5	9	9.5

46. The Open University is continuing to expand its undergraduate population, with an increasing emphasis on the more expensive area of mathematics, science and technology. There will be over 73,500 undergraduates by 1991, an increase of 5,500 since 1987. Some of the further expansion will be in the priority areas of computing and foreign languages: using the Open University would be a cost effective way of increasing student numbers in these areas. The University has taken effective action to improve its financial management. As with the other universities, it is having to face increased costs. The baseline for 1991 allows for only a very small increase over 1990. I need the extra money to ensure that

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the University can balance its books as student numbers and costs continue to increase.

2. Universities Capital

	1990-91	£ million 1991-92	1992-93
Universities Funding Council	35	35	35
Open University	11.5	1.5	1.5

47. The Advisory Board for the Research Councils has brought forward some disturbing evidence about the age of teaching and research equipment in the universities. Much equipment is old or obsolete. The reduction of 15% in real terms in the UFC equipment grant between 1986-87 and 1989-90 led to an unsatisfactory replacement cycle. Industry expects new graduates to be familiar with the latest equipment, but in many cases universities cannot afford to provide it. There is now a need to undertake a proper programme of replacement of equipment for teaching and research. I acknowledge that equipment is provided both through general funds and the Science Budget: this bid therefore should be viewed alongside that of the Research Councils, which it complements. I am also bidding for funds to purchase the freehold of the Walton Hall site of the Open University.

POLYTECHNICS AND COLLEGES OF HIGHER EDUCATION

1. PCFC Recurrent

	1990-91	£ million 1991-92	1992-93
Securing viability	49	50	51
Restructuring	5	7	8
PCFC Running costs (including relocation)	1	1	1
Management education ¹	<u>11</u>	<u>11</u>	<u>11</u>
Total	66	69	71
Adjustments between PCFC and LEA sector:			
Additional debt/pensions liabilities	4	4	4
New accessions	4	4	4
Reduced rates requirement	<u>- 8</u>	<u>-8.2</u>	<u>-8.4</u>
Net recurrent bid	66	68.8	70.6

¹ See paragraph 54 below

48. With the help of the transitional funds which we agreed in the last two Surveys, the new PCFC sector has been launched successfully. Nevertheless with their local government inheritance

- in particular under-investment in plant - their overall tighter level of funding than the universities, and the lack of any financial reserves, the polytechnics and colleges are in a fragile financial position. They need additional support if they are to play their key part in meeting demand for higher education. Unless we can provide that additional support we shall lose the political gain of freeing the institutions from local authority control.

49. There are two points of special concern on recurrent funding. First, as in the universities, student demand remains buoyant despite the demographic downturn. The latest projections for the sector and the forecast GDP deflator imply a further squeeze on unit costs of 5% in real terms. The polytechnics and colleges have over the past decade achieved efficiency gains of some 15%. A further squeeze of 5% is not sustainable without lowering of standards as institutions will be forced to cut expenditure on non-pay items such as books and materials and PCFC will be forced to divert funds to shore up institutions in trouble. Second, we must allow for employers in the PCFC sector to engage in meaningful negotiations about pay during 1990-91. The employers may not be able to reach a settlement with their academic staff which can be contained within planned funding in the current and future years. For 1990-91, I want to encourage the employers to pursue their ideas about more flexible pay structures so as to reward performance and to review conditions of service offered to their staff. The purpose of the main element of my bid is thus to improve efficiency and keep the PCFC sector on a sound financial basis in 1990-91, bearing in mind that institutions have no reserves and initially little scope for earning income outside their public funding.

50. My bid for restructuring is intended to help secure the efficiency gains that will still be required. In last year's Survey we agreed to limited provision for restructuring simply to enable those institutions most directly affected by the withdrawal of topping-up to balance their books. I am bidding for a modest extension of the existing programme. This will enable institutions to plan the necessary further reductions in their staff and to maintain a healthy age profile.

51. Finally there are two items which will not add to public spending - the accession of two further LEA maintained colleges to the sector to which I will shortly be considering and an increased level of local authority liabilities for debt and pensions which fall to be met by the PCFC compared to that assumed when we made the initial transfer from AEG to the PCFC baseline last year. I can conveniently meet these additional costs to the PCFC through the reduced requirement in the rates bill for institutions in the PCFC sector from April 1990 onwards.

2. PCFC Capital

	£ million		
	1990-91	1991-92	1992-93
Capital	70	70	70

52. Despite the welcome increase in equipment provision we agreed last year, concern about under-investment is being impressed forcibly on me by the PCFC and the businessmen who now play an active majority role as institutional governors. There is no real answer I can make when they say that no successful commercial enterprise would have so low a level of capital investment. It is vital that we equip the new sector with the tools to do a good job and to attract employer support and private funding.

53. The PCFC this year can only meet about 1% of the bids for new building projects. Many polytechnics have never benefited from the capital investment they needed and there is now clear evidence from HMI that poor accommodation is threatening the quality of courses, particularly in science and technology. It is unacceptable that they should be the poor relation in terms of accommodation. A PCFC building survey is likely to reveal a need for substantial extra investment. My bid would enable the worst problems to be tackled selectively, and would enable the institutions to move more quickly in dealing with the backlog of out-of-date equipment.

Management education

54. We should begin to prepare for a more market-led approach to management education. Management quality will determine our competitiveness in world trade, not least in post-1992 Europe. We need to improve the quantity and quality of management education and the bulk of the cost of this increased provision must be borne by the customers, mainly employers. My bids under the university and polytechnics headings above are aimed at making this possible by increasing the stock of high-quality management teachers and contributing the restoration of standards of accommodation and teaching facilities (including information technology).

STUDENT AWARDS

	1990-91	£ million 1991-92	1992-93
Estimating changes	74.6	101.8	106.1
Freeze on main grant rates and parental contributions	0	-7.1	-15.7
Up-rating for higher GDP deflator	2.5	3.6	3.6
Oxford and Cambridge fees	3	3.2	3.3
London boundary	0.8	1.2	1.2
Lifting moratorium	8.0	10.9	12.6
Mixed-mode courses	<u>1.6</u>	<u>3.0</u>	<u>4.0</u>
<u>Total</u>	<u>90.5</u>	<u>116.6</u>	<u>115.1</u>

55. It is important that I have sufficient money to cover the cost of our statutory commitment on maintenance grants and fees in 1990-91 - the last year in which the main rates of maintenance grant will be uprated. As explained in paragraph 39, adjustments will be made to my baseline during the Survey to cover the proposed

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increase in tuition fee. My bid covers the latest estimate of projections of the number of award holders, the latest estimate based on most recent returns from local authorities of the average level of award, and an increase in the main rates in line with the latest forecast GDP deflator of 4%. As in the last two years, I shall want to revise this bid in due course to allow for the forecast GDP deflator at the time of the Autumn Settlement.

56. There will be savings, as the Table shows, through freezing the main rates of grant from 1991-92. I am clear however that we shall need to continue to uprate by the GDP deflator certain allowances additional to the main rates. This is important if we are not to prejudice our objective of broadening the base of entry to higher education - particularly to include more older students - and the cost is small.

57. My bid for Oxford and Cambridge college fees allows for increases in line with those which I am seeking in funding for the universities.

58. I am proposing three other changes in the awards regulations which have relatively small cost consequences but are of considerable importance to the reception of the new awards regime next year:

- i. To end the moratorium on the designation of degree-comparable courses.
- ii. To make mandatory awards available for the full-time components of mixed-mode courses.
- iii. To rationalise the boundary within which grant is payable at the London rate of grant.

59. The case for the first of these changes was argued last year and I will not take space here to elaborate it. The second is of great importance to my policy of extending participation. It requires legislation, but the Student Support Bill provides the opportunity. The third will enable us, at small cost, to remove an anomaly in the treatment of students at London University.

SCIENCE

	1990-91	£ million 1991-92	1992-93
Avoiding loss of science	26	37	53
Manpower training and support	8	14	15
Equipment	23	22	20
Restructuring Councils' Institutes	15	14	10
New priority research	<u>31</u>	<u>44</u>	<u>37</u>
Sub-total	103	131	135
National scientific commitments	6	9	7
<u>Total</u>	<u>109</u>	<u>140</u>	<u>142</u>

60. Everyone has welcomed the settlement for science which we agreed last year. We now need to consolidate this. There have been two main worries. First, what we agreed will now buy less. The Research Councils are, for the most part, unable to influence the level of pay settlements for the research staff which their grants finance, and other costs have increased well beyond what we had in mind when we set the figures last year. Second, the settlement allowed for a reduction in real terms in those years which fall within the new Survey. The first element of my bid is designed to offset these worries.

61. The second element in my bid is designed to safeguard the supply of very highly qualified manpower through an increase in postgraduate maintenance awards. That is a priority need for the years ahead. There has been a tendency for the take-up of awards to fall in the past two years, and the number of awards has fallen. This trend needs to be reversed if we are to meet the problems which the demographic plunge will bring in the 1990s.

62. There is now firm evidence pointing to serious equipment deficiencies which have accumulated in research laboratories over the years. This cannot be corrected all at once, but I should like to make a start on a programme this year.

63. Last year, I gave you a list of desirable restructuring proposals for Research Council institutes. You acknowledged that the settlement would cover only part of the programme which I envisaged. As you know, we are currently examining a number of options relating to MRC's proposal for a major restructuring to create a centre of excellence for clinical research. I shall keep you in touch with this. There remain a number of other cost-effective restructuring proposals which I would like to see pursued. The fourth element in my bid provides for this.

64. My fifth element is for new areas of priority research. I need particularly to be able to respond to proposals for new environmental programmes of national and international importance and to play my part in strengthening the UK's effort in global climate research. I have already indicated my willingness to make a modest contribution to the ERS-2 satellite and I propose to devote £6m to this, spread equally over the three PES years. But if I am to be able to play my part in our efforts in this key area I shall need extra money.

65. Finally, there are the national scientific commitments which I have to press every year. This year they are modest. Apart from the James Clark Ross ship there is no bid for the British Antarctic Survey. I do however need resources for the British Geological Survey to meet needs which I believe should be considered outside the normal priorities for science.

66. I very much hope that you will be able to agree my new bids so that we can build upon the settlement agreed last year and expand further the level of research in areas where we have an outstanding contribution to make. We have every reason to believe that extra money will buy the results.

PUBLICITY

	1990-91	£ million 1991-92	1992-93
Campaigns on: teacher recruitment, National Curriculum and parental involvement	15.5	14	12.5

67. We must ensure that our education reforms are understood by those outside the education service. Unless we do this, conflicting and misleading reports will circulate and our objectives will be the more difficult to realise. Projecting a strong positive image of education, especially the reforms which flow from the National Curriculum and associated testing of achievement, will help towards our policy to involve parents more directly in schools. In order for our reforms to succeed we need an adequate supply of teachers. I propose a campaign to encourage more young people and adults to enter or return to the teaching profession. I would want to subject the campaign to rigorous monitoring against specific objectives: but I am convinced that it would be a cost-effective way of meeting our policy aims.

RUNNING COSTS

	1990-91	£ million 1991-92	1992-93
Inflation and pay	3.6	4.6	6.0
Increased staff	1.8	1.5	1.4
Accommodation	0.3	8.8	9.1
Other non-pay	<u>0.8</u>	<u>1.2</u>	<u>1.5</u>
Total	6.5	16.1	18.0

68. When I agreed the three-year settlement last year, you accepted that this might be reopened if significant changes in the Department's staffing needs could be demonstrated; if forecasts of inflation changed significantly; or if it became clear that the outcome of the Treasury's negotiations with the Civil Service unions during the Survey period was significantly different from the earnings assumptions underlying the settlement. In the event, all of these conditions have been realised, and I have to ask for a new three-year settlement.

69. On inflation and pay, the three-year settlement assumed an increase in the pay bill in 1990-91 of some 4.5%. But a first charge on this will have to be the follow-through effect of some 2% of the staged pay settlements agreed by the Treasury for 1989-90. I clearly need more money to reflect the likely outcome of the Treasury's negotiations with the Civil Service unions for the 1990-91 financial year and beyond. My bid allows for this.

70. On staffing, it is now clear that some of the work needed on the abolition of ILEA, schemes for local management of schools, and the

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National Curriculum working groups will not fall away as soon as we had expected. It is clear also that we shall need additional staff to deal in particular with the increasing number of applications for grant-maintained status, the introduction and auditing of financial management arrangements for GM schools and City Technology Colleges, the introduction of student top-up loans, and tackling teacher shortages. In addition to this, our reforms have generated much greater public interest in the work being undertaken by the Department, and the level of MP and other correspondence has increased dramatically. I have seen figures to show that Ministers in this Department received at least 10 times more MP letters per member of staff than in some other major Departments. We have over 500 letters at present still awaiting a Ministerial reply 4 weeks or more after they were received.

71. Many of the Department's staff continue to work exceptionally long hours, as they have done since work on the Act began. I cannot reasonably expect them to do more. A great deal has already been accomplished. I am clear that more staff will be needed in 1990-91 with some small reductions thereafter as shown in the table:-

	1989-90	1990-91	1991-92	1992-93
Central Cost Centre	1585.5	1655.3	1639.4	1629.5
HMI	479	485	485	485
HMI Support Staff	239	244.5	247.5	249.5
Pensions Branch	314	309	299	289
<hr/>				
TOTAL	2617.5	2693.8	2670.9	2653
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These figures do not allow for the transfer from the Home Office of responsibility for grants under Section 11 of the Local Government Act 1961, which will need to be covered by a PES transfer.

72. On accommodation, the Department's headquarters will move to Sanctuary Buildings next autumn where the cost of the lease will rise substantially over our existing accommodation. I am therefore bidding for funds to meet this inescapable commitment, as well as for the costs of temporary accommodation in London for overflow staff (the new building is 25,000 square feet smaller). I hope that our plans for permanent accommodation further afield can be sufficiently advanced to make this unnecessary. In that case our officials will negotiate separately the inevitable extra short-term costs of permanent relocation.

73. I have to say that, unless this bid is met, the Department will not be capable of implementing the reforms of the education system which we have launched.

ADMINISTRATION CAPITAL

	1990-91	£ million 1991-91	1992-93
<u>Agreed bid</u>			
Sanctuary Buildings	8.5	-	-
<u>Additional bid</u>			
Information technology	0.5	2	2

74. In addition to the cost of the staff themselves there will be some increased capital costs to support the proposed level of activity. I mention here two particular concerns - information technology and accommodation.

75. First, the staffing bid has been formulated on the assumption that we shall increase our investment in IT. Our new office system is proving highly successful. As the Department's running costs Management Plan (forwarded separately) demonstrates, we are already securing valuable efficiency gains, and can get more by extending the system.

76. Second, on accommodation, I am glad that our officials have reached agreement on the capital cost of Sanctuary Buildings. About one third of the expenditure will have been incurred by the end of this financial year. Our relocation studies are being taken forward with a view to relocating outside London staff who cannot be accommodated in Sanctuary Buildings. As noted above, my running costs bid includes an element for temporary relocation in London, but given the tightness of the time scale I think it would be prudent to bid for a £150,000 capital reserve to allow for minor alterations to accommodation to be used on a temporary basis.

77. I am sending copies of this letter to the Prime Minister and to the Secretaries of State for Scotland, Wales, Northern Ireland and the Environment.

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