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Rt Hon Norman Lamont MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
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- 5 OCT 1989

Dear Norman,

EDUCATION, SCIENCE AND ARTS COMMITTEE REPORT: DES AND OAL
EXPENDITURE PLANS

I attach a draft reply to the Education, Science and Arts Select Committee's report on DES and OAL expenditure plans, which was published in July.

The Committee's recommendations this year cover only a small range of topics. The draft response takes into account contributions from the other Departments most closely concerned.

I should like to publish the response as soon as possible, and - as in earlier years - as a Command Paper. I should be grateful to have any comments on the text by 10 October.

I am sending copies of this letter to the Prime Minister, the Minister for the Arts, members of E(EP), and to Sir Robin Butler.

Yours etc,
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DEPARTMENT OF EDUCATION AND SCIENCE AND OFFICE OF ARTS OF
LIBRARIES EXPENDITURE PLANS 1989-90 TO 1991-92 (CM 612):
GOVERNMENT RESPONSE TO THE SECOND REPORT FROM THE EDUCATION,
SCIENCE AND ARTS COMMITTEE, SESSION 1988-89

Introduction

1. The Government welcomes the second report from the Education and Arts Committee on DES and OAL expenditure plans.
2. The Committee makes twelve recommendations in its Report on DES and OAL spending plans: this response sets out and comments on each recommendation in turn. The response, insofar as it relates to DES responsibilities for local authority education matters, refers to the position in England.

A: DEPARTMENT OF EDUCATION AND SCIENCE

Schools

We welcome the increase in expenditure on under fives, and the corresponding rise in under fives in education, and look forward to an accelerated rise in under fives provision in future years beyond 1989-90 (para 11).

3. The Government will continue to provide for the education of very young children within the constraints of available resources and after allowing for the major reforms initiated by the Education Reform Act (ERA). As noted in its response to the Committee's recent report on the under fives¹ the Government believes the private and voluntary sectors can make an important contribution to the fulfillment of demand for high quality

¹ Educational Provision for the Under Fives. Observations by the Government and Local Authority Associations on the First Report of the Committee in Session 1988-89, paragraph 5, HC 324

nursery provision, and will seek ways to encourage this contribution. The development of all aspects of policy on nursery education will be informed by the report due next year from the Committee of Inquiry into the quality of the educational experience offered to the under fives.

Reliable quantitative performance measures must be devised if this Committee, or anyone else, is to be able to judge value for money in the expenditure of over £11 billion each year on schools. We look to the DES to publish proposals for such measures in time for next year's Public Expenditure White Paper (para 14).

4. The Government continues to regard the development of performance indicators as essential to the development of good management practice and a cost effective education service. The development of indicators is not of course an end in itself; the data generated must be set in a broader context and sensitively interpreted.

5. Preparations for the introduction of Local Management of Schools (LMS) from April 1990 have provided a stimulus by opening up the process of resource allocation within local education authorities to public scrutiny. Authorities are developing their own performance indicators to monitor spending and educational output at LEA and school level as management responsibilities are delegated to schools. They are required to set out their proposed monitoring arrangements in submitting their LMS schemes for the Secretary of State's approval. In preparation for their new responsibilities for budget management, school governing bodies have been encouraged, in part through Government-supported training materials, to develop indicators to monitor the effect of spending decisions. Such monitoring will also assist forward planning.

6. The Department has taken forward its pilot work with a group of authorities and headteachers exploring useful indicators for schools' internal management. A workshop took place this spring and the Department hopes to publish a discussion document

later this year. HMI has also been involved in evaluating and developing indicators.

7. The current major education reforms will make available a range of key quantitative data at national and local level. Section 22 of the ERA provides for the publication by schools of national examination results in a standardised format from Summer 1990 onwards. The publication by LEAs and the DES of National Curriculum aggregated assessment data, and the provision of information to parents about their child's assessment results with comparative data, will also add significantly to existing information. Financial statements (to be produced under Section 42 of the ERA) will for the first time provide summary data at a national level on planned and actual spending on individual schools.

8. Internationally, the UK is participating in an OECD project to develop indicators for monitoring and evaluating school education in member countries.

We urge the DES to keep spending on books and equipment under close scrutiny and to ensure that survey evidence is regularly made available about the quality and age of books in use (para 15).

9. The Government intends to keep spending on books and equipment under scrutiny, as part of its annual consideration of the pattern of spending by local authorities on education. This scrutiny is informed by the evidence provided by HM Inspectorate on the adequacy of the supply and state of books in schools. HMI reports on schools, and their annual "Standards in Education" report, comment on the provision of books and other teaching resources. Relevant information may also be provided by some Education Support Grant programmes - notably, in the 1990-91 programme, the Basic Curriculum and Assessment activity - which include provision for the purchase of books and other materials. Local Management of Schools will increase the ability of schools to match spending on books to their own assessment of priorities.

As with books and equipment, current spending on repairs and maintenance has risen by about one fifth in real terms since 1985-86. We welcome the improvement to the fabric of schools which this additional spending should bring about and, as with books and equipment, would welcome fuller information about the actual improvements achieved by this element of schools expenditure (para 16).

10. Various sources of information about the state of school buildings, and the impact of spending on repairs and maintenance, are already available. As with books and equipment, HM Inspectorate reports on schools, and their annual report, comment on the state of school premises. The Society of Chief Architects of Local Authorities publishes an annual report on the maintenance of local authority buildings, including schools. The Department's 1987 "Survey of School Buildings" reported the results of a special exercise involving a national sample survey of the school building stock. However, major national surveys of this kind cannot be carried out on a frequent basis. The main need for information is at local level, given that LEAs have primary responsibility for keeping the state of their school buildings under review.

We strongly recommend that the 1990-91 RSG settlement should take full account of any pay settlement for the year, particularly as pay levels are determined by central Government (para 18).

11. The Government's 1989-90 spending plans allowed for all save £55 million (net of savings on superannuation) of the cost of the 1989-90 teachers' pay settlement. That £55 million represented the additional cost of the settlement over the remit originally given to the Interim Advisory Committee (IAC), and was equivalent to less than 0.4% of education provision. The Government notes that the Committee would not favour the abandonment of cash limits or automatic uprating for inflation. For 1990-91 the Government intends to make provision within total education standard spending for a teachers' pay award at a level consistent with the remit given to the IAC on 26 September.

We would expect future White Papers to make it clear if any change in the scale of use of specific grants was contemplated (para 19).

12. The size and nature of specific grants for education spending will continue to be decided as part of the annual determination of public spending and reported to Parliament in the Public Expenditure White Papers. The Secretary of State remains bound to consult appropriate bodies representing LEAs before making regulations governing the Education Support Grant programme. The Committee might also wish to be aware that the Department is conducting an efficiency scrutiny of its principal specific grant programmes.

The Science Budget

We regret that the planned increase on capital has subsequently been reduced to 13.4 per cent as a result of the postponement of the construction of a new research vessel for the British Antarctic Survey to the next financial year (involving some £8m). We recommend that this £8m is reinstated in the science budget for next year (para 26).

13. The Science Budget was reduced by £8.493m in 1989-90 because of the phasing of expenditure on the construction of a new research vessel for the British Antarctic Survey. Provision for science in 1990-91 will be determined in this year's public expenditure survey in the usual way.

We welcome the construction of a simple and robust measure of science costs, and we recommend that every effort be made to publish separate indices for current and for capital items, as well as an overall science expenditure index (para 29).

14. The Department is continuing to investigate the feasibility of constructing a robust index of science costs. Initially this work is addressing recurrent costs. The technical problems associated with the construction of an index, particularly where capital equipment is concerned, are

considerable. At this stage the Department is doubtful whether a robust and simple measure of science costs, whether or not split between current and capital items, can be devised.

We find the fall in manpower training revealed by these figures [of the overall number of postgraduate studentships] to be disappointing, particularly at a time of increasing resources, and look forward to receiving the results of the Research Councils' investigations as to the reasons (para 30).

15. The figures presented to the Committee were taken from a report produced by the Research Councils earlier this year. These figures have now been revised. They show similar but less marked fluctuations in take-up between 1983-84 and 1987-88. More significantly, they show an increase in take-up of awards in 1988-89 instead of a decrease.

1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
6187	6037	6245	6261	6079	6217

Despite the overall increase in 1988-89 there was a decline in the take-up of SERC's CASE awards and of awards in some other fields, as outlined in the Department's submission to the Committee. The Councils plan to commission a study of the factors influencing students' decisions on whether or not to embark on postgraduate study: it is hoped that this will explain the differences in take-up between subjects and between advanced course and research studentships.

We would welcome the publication of at least some of the performance indicators for science referred to in paragraph 64 of Cm 612. Where such indicators are published, it is essential that a time-series is given for all the years covered by the White Paper (para 31).

16. The Department will invite the Working Group on Output and Performance Indicators to consider the publication of some of the indicators which they have developed, in the form suggested by the Committee.

Presentation

We recommend that the DES ensures that future White Papers allow consistent comparisons to be made over the full period of the particular White Paper of all items within the programme (para 33).

17. The Government aims to make the Public Expenditure White Papers as clear and informative as possible. The components of the main table in the White Paper which sets out the expenditure plans of the DES have naturally been subject to changes over the course of time because of developments within education which have affected central and local government funding. When it has been possible to present these changes over the full period of the White Paper, this has been done. There may however be occasions when the nature of the spending concerned makes such a full comparison impossible, as was the case with the creation of the PCFC sector.

We would expect to be consulted on the proposed presentation of the main education and science table in the White Paper when decisions come to be made about its future (para 34).

18. The DES chapter of the 1990 PEWP will continue to provide the information displayed in the main table of the 1989 DES chapter, but the format will reflect the introduction of the New Planning Total. From 1991 departmental reports will replace the departmental chapters of the PEWP; there are no plans at present for any further changes in the table's format at that stage.

B: OFFICE OF ARTS AND LIBRARIES

Overall trends

We are concerned at the effect that an unexpected level of inflation could have on the three-year funding system. This cannot be judged on one year's figure alone. We therefore recommend that, at the end of the first triennium (ie 1990-1991), the operation of the system should be reviewed (para 37).

19. The Government notes the Committee's view. It was always the Government's intention that the operation of three-year funding should be monitored, for example in the context of discussions with arts NDPBs of their corporate plans. The institutions have welcomed the clearer planning framework which the introduction of the three-year funding has provided.

Regional policy

We welcome the evidence that the abolition of the metropolitan authorities has not harmed arts provision in those areas and look forward to a continued commitment by local authorities to the arts (para 41).

20. The Government notes the Committee's view.

Information in the White Paper

We note that the OAL have only partially acceded to the Committee's request in last year's Report for certain extra items of information to be included in the OAL chapter of the White Paper, including separate figures for OAL capital spending, figures for local authority performing arts spending, and figures for grants to OAL's major clients. We ask the OAL to look again at the possibility of including the extra information suggested (para 43).

21. The Government notes the Committee's request and will examine further the possibility of including the information

suggested in the Public Expenditure White Paper.





SECRET

CF - pe. - public expenditure

Feb 3 (a-i)

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PUBLIC EXPENDITURE SURVEY : PROGRESS REPORT

Introduction

As expected, very difficult Survey - probably the most difficult since 1980. Intense economic and political pressures for higher spending across whole range of programmes.

2. July Cabinet agreed that top priority was to defeat inflation. Remit was to :-

- maintain downward trend in GGE ratio (ex pp).
- stick "as close as possible to existing plans".

(Necessarily vague, given change in definition of planning total.)

3. Starting point is existing plans which imply only modest decline in ratio. Low expenditure and higher money GDP pushed ratio down in 1988-89. Could happen again this year, to some extent (though spending not likely to undershoot). Recognised therefore that might be a blip up in the ratio in 1990-91. But all the more important to have some decline thereafter.

4. Even this ambition now at risk. Since July, total bids risen. Anything for the Community Charge would be extra.

BILATERALS

5. First round bilaterals on all programmes; second round meetings on some.

(i) Virtually Settled : DTI, Northern Ireland, Department of Energy.

(ii) Entered serious negotiations on Health, Defence, Home Office, Wales, FCO, Employment. DOE.

(iii) Proving difficult : Transport (including Nationalised Industries), Education, MAFF, Scotland. Some difficult specific policy issues on Social Security.

LIKELY SURVEY OUTCOME

6. Excluding any addition for the Community Charge, forecast outcome of Survey implies:-

- Substantial cash additions to GGE.
- Rise in GGE ratio in 1990-91, very little decline thereafter, year 3 about same as 1989-90 outturn (assuming latest unpublished assumptions about money GDP - could go down as well as up).
- Real growth in GGE over Survey period broadly the same as that of real GDP ie well above 1½ per cent achieved between 1978-79 and 1989-90.

Forecast outcome already assumes tough decisions on Social Security, Defence, Transport, Employment, Home Office, Education. Chief Secretary pressing very hard on individual programmes but unlikely to do better in aggregate. Anything extra for Community Charge adds directly to planning total on new definition, and likely to push up general government spending.

KEY OUTSTANDING ISSUES

7. (i) Social Security: Child benefit - Treasury seeking further one year freeze, and to end present uprating assumption in PEWP in years 2 and 3. Law Officers advising on uprating assumption. Unemployment benefit - Treasury option to replace UB by income support after six (rather than twelve) months requires primary legislation. Disability - scale of package needed this year to respond to OPCS and contain long term upward trend in spending. Department bidding for amounts

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rising to £½ billion in 1992-93, including major new benefit, with no net savings until next century.

- (ii) **Transport:** (Total road and rail bids about £6½ billion over three Survey years.) Affordable scale of extra spending on roads, following E(A) and White Paper commitment, given risk of construction overheating. Cost overruns, particularly on Channel tunnel related rail investment. Large bids, additional to those for safety, for London Transport. Realism and affordability of commitment this year to three new London rail mega-projects. These must be handled in Survey. Strong case for going ahead with improvement in existing LRT lines and with the Jubilee Line extension for Canary Wharf (subject to satisfactory O & Y contribution), but postponing East-West Crossrail and Chelsea Hackney. (Department wants to introduce two private Bills this November.)

- (iii) **Environment :** How much extra can be afforded this year to meet preferences for subsidised housing to complement possible homelessness package. Consistency with past policy and market orientated approach; no public policy commitments; steeply rising (Housing Corporation) baseline. How much can be afforded for UDCs etc given escalating cost of Docklands transport.

- (iv) **Education :** Affordability. A wide range of very large bids on higher education, science, schools capital. Big gap remains, especially on schools capital and science.

- (v) **Defence :** Extent to which effects of higher inflation can be absorbed by achieving 2½% efficiency savings promised at Prime Minister's VFM seminar.

- (vi) **ODA :** whether overseas aid should maintain its share of GNP, when public expenditure as a whole is falling as a proportion of national income.

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- (vii) Employment : Scale of reduction in baseline to reflect lower unemployment, demography, need for employers to contribute more towards training, and scope for limiting access to ET by groups not covered by manifesto guarantees.

- (viii) Scotland : How vigorously to pursue reductions in Scottish over-provision eg by adjusting population base or disallowing bids on block or absorbing part of AEG settlement within block.

- (ix) OAL : Seeking to re-open generous 1987 3-year deal. Strong arts and museums lobbying.

- (x) Central government support for local government capital spending (relevant especially to Education, DOE) : Extent to which Central Government should signal need for restraint on LA capital spending, by holding down Central Government support (credit approvals, grant). Huge overspend this year. Risk that receipts could start to fall away after 1991-92, but ample accumulated receipts in 1990-91. Low priority of much LA spending.

- (xi) Running costs : Growth in 1990-91 likely to be nearly 10%. Real pay pressures, but need for maximum efforts to absorb through greater efficiency gains. Large executive departments should aim for over 1½% target.

PROGRESS IN INDIVIDUAL BILATERALS**DEFENCE**

MOD increased their bids substantially following the revised inflation assumptions issued in July. They made some reductions following the first bilateral, but still seek to reopen 3 year settlement. Reasonable possibility of settling outside Star Chamber, but large gap still remains in years 2 and 3 following second bilateral.

Main issue : impact of higher inflation and scope for efficiency savings, to offset it.

FCO - DIPLOMATIC

Bids substantial - mainly running costs. Settlement probably possible, linked to acceptable deal on aid.

Main issue : scope for pruning lower priority diplomatic service activity to offset rising costs.

FCO - OVERSEAS DEVELOPMENT ADMINISTRATION

Large bids to meet existing commitments and new demands which would increase overseas aid as proportion of GNP. Still significant gaps to be bridged at second bilateral.

Main issue : how far overall programme needs to grow in real terms, allowing flexibility for new initiatives (eg on environment) in addition to commitments (eg Nigeria), and whether in addition it needs to maintain/increase its share of GNP.

AGRICULTURE

Reductions offered on CAP due to prospects for harvest; but

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substantial new bids for domestic agriculture. No significant savings offered at first bilateral.

TRADE AND INDUSTRY

Virtually settled. Mr Ridley has offered substantial savings below baseline, though with some increases (not finally settled) on running costs. Details to be tied up in correspondence.

ENERGY

Settled close to baseline on departmental programme. Electricity privatisation precludes firm decisions on Nationalised Industries pending contract negotiations. Major long term threats on Coal, but, as working assumption, stick to baseline for Autumn Statement. Electricity EFL still to be decided.

EMPLOYMENT

Following first bilateral, Mr Fowler reduced bids and offered savings to stay roughly on baseline (somewhat over in year 3). Treasury looking for substantial reductions below baseline in all years. Could go to Star Chamber.

TRANSPORT (including Nationalised Industries)

Road and rail bids total some £6½ billion. Treasury accept case for significant increase, but want substantial reductions in bids, on grounds of realism and construction prices, as well as affordability. Unlikely to settle without collective discussion.

Issues : Department not moving from £3 billion road bid justified by higher construction costs, early start to expanded road programme following White Paper. Little progress on rail. Department bidding to cover escalating costs, particularly of Channel tunnel related rail investment (including property blight in Kent). Also large new bids for London Transport (on top of safety). No substantive discussion yet possible on 3 rail mega-projects (EW Crossrail and Chelsea Hackney to relieve congestion

plus Jubilee line extension for Canary Wharf). Department wants private Bills on 2 mega-projects this November (including Jubilee line). (Uncertainties about financing and timing of construction of Channel fixed link could be relevant).

ENVIRONMENT

Very large bids for housing, local environmental services, urban spending (including LDDC). Department has moved, but significant gap remains on housing and local environmental services.

Issues : Department wants significant increase in subsidised housing as well as homelessness package. Treasury resisting former on grounds of realism and affordability. Huge bids for local environmental services (in practice largely LA administrative buildings and leisure centres as well as more important waste disposal items) to cushion possible, but uncertain, impact of lower receipts. Scope for offsetting escalating cost of Docklands transport (where latest reports suggest Rosehaugh Stanhope may be wavering on Royals).

HOME OFFICE

Progress on key issues, but still some way to go. Settlement likely.

Issues : Implication of lower prison population projections (allowing surplus of places in 1992-93) for spending on new and existing prisons. Scale of additional police manpower needed to meet public commitments.

EDUCATION

Could be long slow negotiation, possibly to Star Chamber. Mr Baker submitted wide range of very large bids for higher education, science, schools capital, and other minor items. Mr MacGregor offered only small reductions so far, leaving big gap on science and schools capital.

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OFFICE OF ARTS AND LIBRARIES

Mr Luce seeking to reopen 3 year deal agreed in 1987 (rolled forward last year). First bilateral 3 October.

Issue : effect of inflation on 3 year deal.

HEALTH

Constructive progress, early settlement likely. Substantial additions (over £1 billion in 1990-91) unavoidable to implement NHS review and maintain reasonable level of service growth.

Issue is scale, in face of inevitable uncertainties about likely costs of review.

SOCIAL SECURITY

Additions since April 1988, including agreed benefit bids, worth £1 billion in 1990-91. Discussion narrowed down to a few key issues which will need to be referred to colleagues.

Issues : Child benefit. Treasury want further 1 year freeze, with protection for poorer families, and to reverse present uprating assumptions in PEWP for years 2 and 3. Annual upratings would still need policy decisions. Law Officers advising on this. Unemployment benefit. Department question politics of Treasury option to replace UB by income support after 6 months (now 12). Needs primary legislation. Disability. Need to respond to OPCS report and contain sharp long-term upward trend in spending. In July John Major proposed a £100 million package to meet key pressure points, in return for longer term action to reduce real growth in spending on disability. Department now bidding for amounts rising to £½ billion in 1992-93, including major new benefit, with no net savings until next century.

SCOTLAND

Mr Rifkind's unwillingness to discuss ways of reducing over

provision led to postponement of first bilateral. Could go to Star Chamber.

Issue: Mr Rifkind seeking extra provision, beyond formula consequential of comparable English increases; Treasury seeking to reduce Scottish over provision, either by an adjustment for diverging trends in population, or by other means. Bids outside block unlikely to cause trouble.

WALES

At first bilateral Mr Walker showed signs of willingness to moderate bids. Settlement likely.

Issues : Mr Walker has bid for programmes normally covered by the block arrangements (as well as for expanded industry programmes, including RSA).

NORTHERN IRELAND

Settled. Additions for Shorts and social security. (Mr Brooke withdrew some bids and agreed to absorb others).

RUNNING COSTS

Total of departments' bids would represent over 11 per cent increase in running costs in 1990-91 compared with 1989-90. Real pay pressures will make it difficult to reduce this much below 10 per cent. Main issue is scope for efficiency gains to offset pay and price increases, and extent to which these can be taken as expenditure savings.