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DEPARTMENT OF EDUCATION AND SCIENCE
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FROM THE SECRETARY OF STATE

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

Prime Minister (4)
To note Sir Keith's reply.

31 January 1985 *Dubs*
31/1

Jim Pat

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MANAGEMENT OF HIGHER EDUCATION

Thank you for your letter of 18 January commenting on my minute to the Prime Minister of 21 December.

I agree with much of what you say about the universities. But I do not think your letter takes sufficient account of the problem of transition. How in practice do we get the universities from where they are to where we would like them to be? This was what my minute was about, and I concluded that the best course was to continue to develop the arrangements for stronger central guidance that I have begun to establish - using that guidance, in your terms, to be more robust and to give firmer and clearer messages - rather than to contemplate some radical change in the present arrangements for funding and control. I assume that you do not dissent from that.

If that is so, then you have to accept that, however irritating, the inflexibilities in the present arrangements are real. Most academic staff cannot be made redundant because of tenure. University autonomy, whatever its other attractions, means that universities are governed largely by their existing staffs who, when they feel under threat, tend to concentrate on the protection of their own short-term interests, rather than thinking about the long-term interests of the university, let alone the country. But it is important to remember too that the universities have only just completed the process of contraction begun in 1981. The steps that we have already taken to reduce the universities' baseline genuinely leaves universities with little room for manoeuvre, especially in the short-term. And the fact that we are now prepared to contemplate giving the universities firmer and clearer messages for the future does not excuse us from a good deal of the responsibility for the absence of such messages in the past and the subsequent policy vacuum which I hope we can now begin to fill.

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The next step in this process is the sending of interim letters of guidance to the UGC (and the NAB) given the delay in the publication of the Green Paper to take account of the proposed review of student support arrangements. Enclosed are copies of these which I hope take matters usefully forward.

Turning to some specific points on your letter, first, I am fully aware of the danger that both the UGC and the universities will come to think that the Government must find extra money for every desirable change. The Green Paper will stress that Government guidance will in general relate to the reorientation of effort within existing resources. But it is simply a matter of fact that in universities and many other institutions inside and outside education change within existing resources can only be achieved more slowly and painfully than change which is fuelled by additional funding whether on a permanent or a pump-priming basis.

You refer to the need to start planning now for the expected effects of demography on demand for higher education. The Green Paper is, of course, intended to launch that process. As Treasury officials know from earlier drafts, it will refer quite clearly to the possibility that some institutions will face the prospect of closure. But it would be unrealistic to expect institutions to volunteer for closure, as your letter seems to suggest. Both the criteria to be applied and the actual choice of institutions are likely to be matters for Ministers to decide. And from our limited experience of closures it would be wrong to under-estimate the forces that could be mustered to defend almost any institution one cared to name. You will yourself recall the prolonged death throes of Nonington, and most candidates for closure are in ruder health than that.

We do not expect demand for higher education - even on the lowest projections - to begin to fall before the end of the decade. I agree that we need to start planning now, and Peter Brooke uses every speaking opportunity he has to prepare audiences for future developments. But the political difficulties in planning for a fall in demand that no one has yet begun to experience will be considerable. Whatever some may say in private, we shall have no friends or allies in public. As to where the effects of any fall in demand should be felt, then, by any measure of demand and many measures of quality, the brunt of contraction should be borne by the public sector - despite its lower unit costs - and this is where in practice contraction may more readily be achieved.

Most important for the short term however is to pursue the change in attitudes to which you refer, and a progressive change in the balance of provision within the system. The Green Paper will I hope contribute to the first, and the funding of a "switch" programme to the second.

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Finally, you mention the proposed demise of the pharmacy department at Heriot-Watt. You will be glad to know that the UGC have now confirmed their decision that pharmacy teaching at Heriot-Watt should be discontinued, and the University have accepted it.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

Yours,

Kerr

31 JAN 1985

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Prime Minister (2)

To note Chief Secretary's
views.

Treasury Chambers, Parliament Street, SW1P 3AG

DWS
21/1

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

18 January 1985

Dear Secretary of State

MANAGEMENT OF HIGHER EDUCATION

You kindly copied to Nigel Lawson your minute of 21/ December to the Prime Minister. Her office have also sent us a copy of the note of your meeting on 4 January.

I was struck by the contrast between the joint planning arrangements you have introduced for the local authority sector of higher education - which have already done much to rationalise provision, alter subject balance, and improve efficiency - and your relatively tentative and indirect approach to the reorientation of the university sector. Full account must of course be taken of the differences of constitution and tradition between the two sectors; and I do not underestimate the importance of the more systematic guidance you are giving the universities and of the beginnings of a more discriminating approach by the UGC to the distribution of funding. But I do wonder whether we could not afford to be a good deal more robust with the universities, who still seem to me insufficiently persuaded to the urgency of some of today's national needs, of the scale of the adjustment they will be called upon to make over the next decade, and of their responsibilities to the taxpayer.

The immediate issues of 'the switch' and of redundancies are being dealt with separately and I need not refer to them in detail here. But they are illustrative of a danger I see in our current relations with the universities - that they will become more and more reluctant to follow paths one would have hoped they would be ready to tread in the taxpayer's and their own long-term interest unless they are given specific and additional financial inducements to do so. The more they perceive that the Government is ready to provide new money to foster a desired change of direction, the less likely they are to move without it, or to take the painful measures that may be needed to release resources

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from activities of lower priority. We risk reinforcing the natural inertia of bodies governed largely by their existing staffs and their natural tendency to safeguard their vested interests in the name of 'academic freedom'. (We must remember, too, that teaching costs in the universities are already significantly higher than in the maintained sector).

The strength of that inertia is illustrated by the lack of progress so far made, despite the efforts of the Chairman of the UGC, in the rationalisation of small and weak departments. A particular case is the proposed closure of the Department of Pharmacy at Heriot-Watt University. The merits are of course nothing to do with me. But I do find it disturbing that, having come to a clear view of what needed to be done, the Committee should so far (apparently) have proved unable to carry it through.

None of this augurs well for the major readjustment which will be called for - assuming that the maintained sector is not left to bear the whole of the brunt - by the very sharp drop we expect in student demand, even when generous allowance is made for factors which may offset the inescapable effects of demography, in the 1990s. The response of the university world (and, to be fair, of the maintained sector too) to your demand forecasts so far has been to invent reasons why it will never happen - whether generally or to the individual institution - rather than to begin to prepare itself. The less that is done now the worse the shape the university system will be in to stand up to the shock when it comes. I see little evidence that serious thought is being given to, for example, the problems of closing an institution or identifying an institution for closure: something which it may well be necessary to contemplate - indeed it has been successfully if painfully achieved in the only marginally easier case of teacher training colleges - but which the university world still appears to consider unthinkable.

On the way forward, however, I have an open mind. Like you, I hope that we can reform student support in a way which will make potential students ponder more seriously than now before they make their educational choices what it is that they want to achieve from higher education and what their prospects of employment will be. This in turn should in time help to alert the universities to the fact that they operate in a market, and to adjust their decision-making accordingly. But I doubt whether it will be enough on its own. A profound change in attitudes is called for. The present arrangements have yet to produce this. That is not to say that major change in the arrangements themselves is either a necessary or a sufficient condition. It may well be that they can be got to work better than now. But that will certainly require considerably firmer and clearer messages still from the centre, at whatever short-term cost to relations with the institutions.

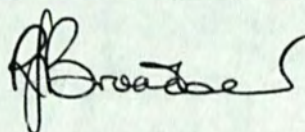
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Perhaps we can bear these thoughts in mind in the further work on your draft Green Paper.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'P. Rees'.

for PETER REES

[Approved by the Chief Secretary]

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EDUCATION : Policy and Expenditure

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