



DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

T Flesher Esq
Private Secretary
Prime Minister's Office
10 Downing Street
LONDON SW1

Prime Minister
You might like to
glance at paragraphs
15-29.

21 December 1982

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Dear Tim,

In his published letter to the Chairman of the University Grants Committee of 14 July, Sir Keith Joseph asked the Committee for an appraisal of the progress of restructuring in the universities in response to their reduced level of funding. The Secretary of State has now received the enclosed interim appraisal from the Committee. He plans to make it available to Parliament on Wednesday by placing it in the Library of the House and answering a Question drawing attention to the fact that he has done so. The letter will also be released to the press on Wednesday.

I am sending a copy of this letter to the Private Secretaries to the Secretaries of State for Northern Ireland, Scotland, Wales, Industry, and Social Services, to the Chief Secretary to the Treasury and to the Secretary of the Cabinet.

Yours ever,
Inogen Wilde

MRS I WILDE
Private Secretary



UNIVERSITY GRANTS COMMITTEE

14 Park Crescent, London WIN 4DH

Telephone 01-636 7799

From the Chairman

Edward Parkes, Sc.D.

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

16 December 1982

Dear Secretary of State

THE RESTRUCTURING OF THE UNIVERSITY SYSTEM: AN INTERIM APPRAISAL

Early in 1981 the Government told the University Grants Committee that the recurrent grant would be substantially reduced over the three academic years 1981/82 - 1983/84. We are now, in December 1982, nearly half way through this period and we have made an interim appraisal of progress so far and of future prospects.

Background

2. The reduction in the recurrent grant announced in 1981 amounted, over three years, to 8½%. To this had to be added the loss of income that the universities would already suffer over the period 1980/81 to 1982/83 as a result of the Government's earlier decision to withdraw that part of the recurrent grant which subsidised overseas students. In 1981 the Committee estimated that the universities' loss of income from both causes would lie in the range 11% to 15%. The effect of the withdrawal of the subsidy for overseas students still cannot be precisely assessed, but our most recent estimate suggests a total loss of income of not less than 13%.

3. The Committee made clear its view that a reduction in income on the scale and at the pace required by Government would necessarily damage the quality of teaching and the research base and would be accompanied, at least for a time, by diseconomies in the use of resources. In order to try to limit the damage, the Committee decided in 1981 that the unit of resource for the system as a whole (i.e. the income per head for home and EC students from grant and fees) should fall by not more than 10%. This implied a reduction in the number of home and EC students of about 5%.

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4. Our approach to planning was described in our Annual Survey for 1980/81, and in more detail in our oral and written evidence to the Select Committee on Education, Science and the Arts. We welcomed your endorsement of this approach in your letter of 14 July 1982.

The Committee's monitoring role

5. In its letters of 1 July 1981 which dealt with future funding and student numbers the Committee gave individual universities advice on some of the adjustments which it thought desirable. However the extremely difficult task of working out their future plans in detail has necessarily fallen on the institutions themselves. We have not thought it helpful to interrupt, and perhaps distort, the internal processes of decision-making by making continual requests for information. Routine returns from the universities have given us details of student numbers and we have twice asked for ad hoc forecasts of staff reductions.

6. We have also received a flow of information by other means. Some 27 universities accepted the general invitation in our letters of 1 July 1981 to discuss their allocations with us in London. Others have volunteered information about their academic planning and sought our advice. A further 14 have discussed their plans with us in the course of our normal programme of visits. We have been greatly helped by our own subject sub-committees and by many outside bodies which have been observing developments in specific areas.

7. We have at times been asked to intervene by those who have been concerned at particular cuts under discussion in individual universities. In general we have not done this: universities are responsible for taking their own decisions, it is impossible for them to avoid making unwelcome cuts, and rumours about their intentions have sometimes proved incorrect. However we have taken up a number of matters with universities generally or with particular institutions.

8. Our grant letters of 1 July 1981 gave a good deal of specific guidance about particular subjects. We have followed this by taking steps to protect certain subjects which appeared to be in special danger. We have invited universities to enter into discussion among themselves and with the Committee about how minority subjects in both the arts and the sciences might be sustained. In some cases we have assisted in the rationalisation of the provision by financing the transfer of staff from one university to another. We have made special approaches to universities with interests in oceanography and the history and philosophy of science, and universities have approached us about problems with minority languages, textile technology, colour chemistry and nuclear engineering.

9. We are investigating suggestions that a large number of sandwich courses are being dropped, partly because it has become even more difficult than in the past to find placements but also because academic staff are too stretched to accept the burden of administration and supervision.

10. Apart from academic disciplines we have felt justified in pointing to other fields where the effects of proposed cuts may not have been fully recognised. In our grant letter of 20 May 1982 we referred to the vulnerability of expenditure on consumable and other materials, including library acquisitions. We have sometimes expressed concern to individual universities that, because they were finding it relatively less difficult to shed non-academic staff, they might be planning a disproportionate reduction in these posts, some of which may be crucial to teaching and research. Excessive savings on administrative staff may mean that academic staff are diverted from their proper duties. Other areas where we have expressed concern to individual universities include student counselling, careers advisory services, and central computer services.

Some general problems of contraction

11. Cuts of the order and at the speed required by the Government would be difficult to achieve in almost any sphere of activity. But special problems arise from the nature and organisation of higher education, where long lead times are often inevitable. Most undergraduate courses last three years and some last even longer. A decision to withdraw a course should be taken with sufficient notice so that prospective candidates are not misled. Even when it has been taken it may be some years before all the existing students have graduated.

12. Further, universities are self-regulating communities of scholars and all academic staff are members of the body corporate. The decision-making processes are complex and depend on widespread consent. Even under the urgent pressure of reduced funding a realignment of academic priorities is not easy to achieve without considerable debate over a fairly long period.

13. Media and parliamentary interest has tended to focus on a handful of universities which have suffered the largest reductions in funding and student numbers. These undeniably face severe difficulties, but almost all universities are having to make major adjustments. It needs to be remembered that during the 1970s the income per student fell by 10% in real terms, so that the new cuts followed a period of increasing stringency for the whole university system. There is a particular problem for the federal university of London, which accounts for between 13% and 14% of the total number of students and contains many institutions with considerable discretion in the management of their affairs.

Home and EC student numbers

14. The Committee advised universities in 1979 to restrain new undergraduate admissions in 1980/81 to the same levels as in the previous year, but not all did so. Taken together with the "roll-on" effect of rising admissions in the preceding years, total numbers in 1980/81 rose by about 3% compared with 1979/80. They rose by a further 1% in 1981/82 even though the new entry fell. There is a particular problem with numbers in mathematics, where the 1980/81 entry was 18% above that in 1979/80 and where continued high numbers could take resources intended for other areas of science. We are considering the implications of this.

15. We now have provisional returns for 1982/83. Not only new entrants but also total numbers have now begun to fall. The following table shows the figures since 1979/80 and our target for the end of the contraction period:

<u>Year</u>	<u>Total Numbers (000's)</u>			<u>New Entrants (000s)</u>		
	u.g.	p.g.	total	u.g.	p.g.	total
1979/80	229.2	31.8	261.0	77.8	20.2	98.0
1980/81	236.8	32.6	269.4	79.7	20.6	100.3
1981/82	239.9	32.4	272.4	77.1	20.9	98.0
1982/83 (estimate based on provisional returns)	237.1	30.6	267.7	74.4	20.1	94.5
1984/85 (target)			249.5			

16. The continued rise in numbers (mainly due to "roll on") until 1981/82 has intensified the problem of adaptation to a lower level of funding. The Committee gave universities the latitude to achieve their student targets by 1984/85 instead of 1983/84. This would oblige them to look after more students in 1983/84 than had been provided for in recurrent grant. The evidence is nevertheless that the great majority of universities are taking 1984/85 as their target date.

17. On the basis of the provisional figures for 1982/83 we consider that most universities are reasonably on course to their student targets. There are however a few universities whose intake patterns suggest that they may exceed their targets by at least 5 per cent. The Committee has written to ask these few universities for information about their plans. Although it recognises the pressure of the still-rising number of applications from well-qualified candidates, it would not wish the recurrent grant for the whole system to be jeopardised by unplanned additional public expenditure at some universities.

Overseas student numbers

18. The following table summarises the position since 1979/80:

<u>Year</u>	<u>Total Numbers (000's)</u>			<u>New Entrants (000s)</u>		
	u.g.	p.g.	total	u.g.	p.g.	total
1979/80	15.7	15.8	31.5	6.0	9.2	15.2
1980/81	14.4	14.9	29.3	5.1	8.2	13.3
1981/82	13.4	14.4	27.8	5.1	8.4	13.5
1982/83 (estimate based on provisional returns)	12.6	13.6	26.2	5.3	8.6	13.9
Change, 1979/80 to 1982/83	-20%	-14%	-17%	-12%	-7%	-9%

The provisional figures for 1982/83 suggest that the fall in entrants which began in 1980/81 has now been arrested, largely as a result of energetic efforts by the universities.

Staff numbers

19. The Committee impressed upon Government from the start of the contraction that, with expenditure on staff representing 75% of total expenditure, universities would be unable to achieve the first essential for adaptation to a lower level of funding- the shedding of staff- without satisfactory terms of compensation. We have observed very strictly the terms prescribed by the Government. We decided that, if universities chose to reach an accommodation with their staff on more generous terms, it would be inconsistent with our obligations to Government and Parliament to make any contribution from the restructuring funds. We allowed an exception only in the relatively few cases where an offer to members of staff had been made in good faith and accepted before the terms of the Government scheme had been announced, and here we limited our contribution to that of the Government's terms.

20. The establishment of clear rules for applying the terms of compensation to many different groups of staff with varying circumstances of employment and pension entitlements has been a complex operation. The capitalisation of the additional costs arising from the early retirement of non-academic staff with benefits improved in the respects defined by the Government (but no other) has been a special problem requiring the assistance of the Government Actuary's Department. The application of the rules and the approval of claims for payment has imposed a major additional burden on our depleted staff.

21. We have twice asked the universities for forecasts of the posts which they expect to shed. The second return, for October 1982, is summarised in the following table:

	OOOs		
	"Useful" natural wastage	Early retirement and redundancy	Total
Academic	1.2	3.2)) 4.0	4.4
Academic-related	0.4	0.8)	1.2
Non-academic	<u>3.3</u>	<u>2.3</u>	<u>5.6</u>
Total	4.9	6.3	11.2

By "useful" natural wastage we mean wastage, through normal retirements or for other reasons, which creates vacancies which will not be filled. Several universities have emphasised that their forecasts are highly speculative and, as a small number of universities have not yet submitted returns, the figures are not quite complete.

22. So far we have received over 1800 claims from universities for the reimbursement of compensation paid to departing academic and academic-related staff. These have amounted to nearly £4lm and suggest that the ultimate cost of compensation for these staff will be in the range £90m - £100m. For non-academic staff the comparatively small number of claims so far received suggests a total cost of £30m. These figures do not include the extra cost of relieving actuarial strain on the Universities' Superannuation Scheme arising from the exceptional number of early retirements (for which you have recently agreed to provide compensation), or of additional staff losses which may be necessary because full compensation is not being provided for pay increases, or of possible litigation.

23. On the basis of these claims the universities are now 45% of the way towards their forecast loss by early retirement or redundancy of 4000 academic and academic-related staff. As might be expected, a high proportion of the academic staff were in senior grades: last July an earlier analysis of claims received showed that 20% were professors and 48% were senior lecturers and readers.

24. The universities' forecasts of redundancy have clearly indicated an intention to make the great bulk of the necessary savings by early retirement: they expected only 17% of their staff savings over the whole period to come from those aged under 50 (and so not eligible for benefit under the Premature Retirement Compensation Scheme). When claims received to date were analysed by age at the end of July, only 7% were for staff under 50. This seems to us to constitute clear evidence that the severance payments for staff under 50 are not proving sufficiently attractive to persuade them to leave voluntarily. Your letter to the Vice-Chancellor of Surrey University of 4 May 1982 (which was released to the press) made it clear that no improvement in the terms of compensation would be authorised. You advised universities which could not otherwise adjust to the new levels of funding without crippling economies to put forward proposals to the Privy Council for amendment of their statutes so as to enable academic staff appointments to be terminated involuntarily. Certain universities have told us that they cannot do this, either because they cannot obtain the necessary consensus for change, or because they have had legal advice that the tenure of existing staff cannot be altered through amendment to their statutes. We shall be watching developments closely.

The future academic balance

25. The Committee has made it clear that it reserves the right to refuse a claim for early retirement compensation if it is not satisfied with the academic rationale behind it. We have felt that we should not use this right until we had systematic evidence of the way things were going. An analysis of the universities' October forecasts shows that in almost all the main subject areas nearly 50% of the posts to be lost through useful natural wastage, early retirement and redundancy have already been shed in 1981/82 and a further 25% are expected to go in 1982/83. In engineering, technology, mathematics and computer science the percentage of posts shed in 1981/82 is much higher than average (and losses thereafter will therefore be lower). This is not unexpected, since these staff find it easier to obtain other employment. There are other areas (e.g.

medicine, accountancy and law) of which this is true.

26. Because universities have so far shed posts much faster than they have reduced student numbers, the student/staff ratio has deteriorated sharply. It seems that in some of the areas mentioned in para. 25 some universities which have been opportunist in their first reaction to the cuts, freezing posts which fell vacant and making maximum use of the Premature Retirement Compensation Scheme, have already overshot their desired staff losses and will have to start recruiting again. At the same time they may have exhausted their voluntary early retirements in other areas (particularly in the arts and social studies) and still have further reductions to make. This may create severe management problems in universities with their traditional form of highly democratic government.

27. We have made the following comparison between the student/staff ratios in the main subject areas in 1979/80 and the position which the universities are, on present evidence, likely to reach in 1984/85:

	<u>Student/staff ratio</u>	
	1979/80	1984/85
Medicine	6.2	7.2
(Dentistry	6.7	7.3)
Engineering & Technology	9.2	10.0
Biological Sciences	8.8	9.2
Mathematical Sciences	10.6	11.2
Physical Sciences	7.4	8.8
Social Studies	11.6	11.8
Arts	10.3	10.9

28. In general we believe that the table (and the numbers of staff and students underlying it) is consistent with our plans for a change in the distribution of students between arts, science and medicine from 50:41:9 in 1979/80 to 48:42:10 in 1984/85 and with the shifts in ratios which we had in mind, particularly the growth in physical science numbers by making better use of resources, the relatively small change in the high student/staff ratio in social sciences and the preferential treatment of dentistry compared with medicine. We are however concerned at the prospective increase in the ratio for medicine, where we had hoped that the 1984/85 figure would not exceed 7. Although we told universities that medicine could no longer receive the protection it had enjoyed hitherto, we had evidence earlier this year that some institutions had misunderstood our guidance and were planning greater cuts than we had envisaged. We therefore sent a letter of clarification in May to all universities with medical schools.

29. The statistical evidence on staff losses cannot show up the damage to a department when a particularly valuable member of staff departs. Nor can a simple enumeration of courses (and of options within courses) which have been withdrawn convey the extent to which the curriculum is being impoverished. It will not be possible for some years to form a balanced view of the effects of the cuts on academic standards in individual departments.

Part-time appointments

30. The Committee has recognised that, after making staff reductions essential to their financial targets and consistent with their academic plans, some universities will have to make temporary arrangements for teaching students whose courses are being phased out or reduced in size. We have undertaken to reimburse up to 75% of the salary costs of part-time appointments (which may be temporary re-engagements of redundant staff) for this specific purpose. Such appointments must be for not more than one-third of a normal full-time appointment, must not exceed three years and must not extend beyond 1984/85. It is not yet possible to estimate the number of claims that will be submitted and their total cost.

Capital requirements

31. Many universities are considering internal mergers and various forms of rationalisation of their sites and buildings to assist adaptation to a lower level of funding. Projects costing less than £1m will normally have to be financed from the university's block recurrent grant. The new arrangements for universities to retain the whole or part of the proceeds of sales of surplus land and buildings will also provide a source of funds. However there will be schemes, some of them costing several million pounds, which can only be financed from our limited building programmes. Such schemes may come after the academic restructuring and extend well beyond the contraction period.

32. We are much concerned at the need for major renovation of university buildings and intend to carry out a pilot study of eight to ten universities in order to assess the scale of the problem.

New developments

33. The Committee is anxious to keep alive the spark of innovation by making some provision for new developments. We have already launched a major initiative in biotechnology, at a cost of over £3m. We have invited universities to submit their own proposals for innovation and we have recently approved schemes in applied physics, metallurgy, engineering, gene transfer in plants, and agricultural marketing. We are considering other proposals.

Research and "new blood"

34. We are continuing to give attention, in collaboration with the Research Councils and the Royal Society, to measures intended to limit the erosion of the dual support system. There are problems over the support of research in the arts no less than in the sciences. The Committee and the ABRC have both argued the case for special Government support for the appointment of young researchers and lecturers at a time when there are few opportunities to bring "new blood" into the system. We welcome your decision to provide additional funds. These will be very helpful but we do not expect them to do more than provide some impetus in selected areas. We intend to take stock of the whole age structure of the academic staff after the period of contraction. Present indications are that, with very few retirements for a decade, the ability of the universities to respond in a flexible manner to the changing needs of society will be severely hampered.

Conclusion

35. This is an interim appraisal and we shall make another at a later stage in the process of restructuring. So far we believe that the university system is adapting itself to the new levels of funding broadly in accordance with the Committee's advice. However there are aspects which cause us anxiety, and uncertainties remain.

Yours Sincerely

Edward Parkes

21 DEC 1962

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