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Alan Kim

PUBLIC EXPENDITURE SURVEY 1983 - BILATERALS

At its meeting on 21 July, Cabinet agreed that our objective for this year's Public Expenditure Survey should be to keep to the planning totals for 1984-85 and 1985-86 published in the last White Paper, and to maintain expenditure at about the same level as this in cost terms for 1986-87. We are to meet at 5.00pm on Wednesday 28 September to discuss how your expenditure programmes might be adjusted to help in meeting this overall objective in each of the Survey years. The Prime Minister has asked us also to consider the consequences of any savings we may identify for the two final years of this Parliament (1987-88 and 1988-89). In addition, we need to examine the provision to be made for manpower and related expenditure for each year up to 1988.

To achieve the objective we have set ourselves will be a formidable task, but I am confident that it can be done. There is, I am afraid, no prospect that we can meet anything like the full range of extra demands of some £6.1 billion which are recorded in the PESC Report. We have of course already decided to increase provision for local authority current expenditure in 1984-85 by £525 million, of which some £177 billion will be added to your programme. I accept that there are some other proposals for increases, totalling perhaps £2 billion, which may prove inescapable. My task is to find sufficient savings elsewhere to offset such increases.

The basic material in front of us will be the relevant chapters of the Public Expenditure Survey Report, and the factual material which has been agreed between our departments about options for reductions. You provided also a helpful commentary in your letter of 6 July. In view of the RSG settlement for 1984-85 and the

impending collective discussion of the provisions for 1985-86 and 1986-87 we shall not of course need to deal with those of your bids which relate to local authority current expenditure. The remaining proposals for increases to your programmes are:-

<u>Local authority capital</u>	1984-85	1985-86	1986-87
1. Schools	165	185	170
2. Further education	40	45	35
Total local authority capital	205	230	250
<u>Vote Capital</u>			
3. Schools	15	15	15
4. Universities	25	25	25
Total Vote capital	40	40	40
<u>Vote current</u>			
5. Information technology(IT) in further education (FE)	5	5	5
6. Universities	25	45	70
7. Student awards	40	50	45
8. Adult and continuing education	5	10	10
9. Science			
(i) continuation of existing policies	15	20	30)
(ii) policy developments	20	35	45)
Total Vote current	110	165	205
TOTAL ADDITIONAL BIDS	355	435	450

I am, of course, ready to discuss these proposals, though against the general background I have described I see little hope of accommodating any bid which is not strictly essential. I accept that that description applies to your bid for student awards, to the extent that offsetting savings cannot be found by changes in the conditions of grant. And you will recall that at our meeting on the cash limit reductions for 1983-84 I expressed some sympathy with the element of your science bid which related to the increasing cost of participating in international organisations. Beyond that I cannot go for the moment, though I will listen carefully to your arguments.

Once we have identified and defined the essential increases, I believe our main task must be to examine the scope for possible savings. Most of the options for reductions in your programmes

so far identified relate to local authority current expenditure. We must not lose sight of these, but for the purposes of our meeting I suggest that we concentrate on your vote-borne programmes. Nor I think need we discuss the option of abating the university lecturers' pay settlement in view of what I say about pay below. That leaves us with the following options to consider:-

Student awards reductions in grant	20	45	105
Abolition of Open University	25	60	60
Withdrawal from European Centre for Nuclear Research	-	-	25
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TOTAL	45	105	190
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We will be able to discuss when we meet how realistic these options are and it may be productive to consider variations on them too. (In particular, there is a variety of ways in which savings on student awards might in theory be secured). We must, besides, consider their implications for the post-Survey years and the scope for further action during the Survey years which would yield savings at a later date.

But given the nature of the objective which Cabinet has set, I think that we need to cast our net rather wider. In particular, I would like to explore with you the possibility of further savings on the vote-borne element of further and higher education in the Survey period and beyond. Here I have two thoughts in mind. First, I understand that unit costs of teaching in the grant-aided colleges are now significantly higher than they are either in the universities or in the polytechnics. That would seem to suggest that there is scope for efficiency savings. Second, I think we must address ourselves to the need for a further round of rationalisation of higher education towards the end of the decade. This has several aspects: both the colleges and the universities will soon need to come to terms with the projected fall in student demand from the mid-eighties; it is one of your objectives to reduce the universities' dependence on public support, in their own best long-term interests; and there seems to be scope to encourage more flexible and cost-effective forms of course provision. These matters are I know under examination at your request, by the UGC, but we need to ensure that the university world considers them with the necessary seriousness and urgency. Major savings will take some years to materialise, but I would not think 1986-87 too early to begin the process; I would therefore propose a significant reduction in university grant for that year.

Accordingly, I would like us to consider the following further savings:-

	1984-85	1985-86	1986-87
Grant-aided colleges	5	5	} 80
Universities			

S E C R E T

At the same time, we might have a brief word about the prospects for more fundamental changes in student finance, including the introduction of a loans scheme. I appreciate that there is little likelihood of savings from this source during the lifetime of this Parliament but early action will be needed if we are to reap the sizeable potential benefits, financial and other, during the 1990s.

Our discussion should also cover the manpower aspects of your programme up to 1 April 1988, and the expenditure consequences of these, against the background of the Cabinet decision that we should secure rather larger manpower reductions over the next four years than those identified by Departments.

Your own proposals put me in a considerable difficulty:-

	1.4.85	1.4.86	1.4.87	1.4.88
Original assessment of requirements (letter of 31 March)	2510	2465	2440	2410
Additional bid to cover increased H M Inspectorate activity (letter of 5 July)	55	80	90	100
TOTAL	2565	2545	2530	2510

For all years, the total now sought is significantly higher than the agreed estimates target for staff in post at 1 April 1984 of 2455. I fear I must press you to reduce your bid substantially. I suggest we approach the problem in three ways:-

- i) take a more rigorous view of your requirements on existing policies and plans. I am glad to note that your present assessment allows for significant savings from computerisation, mechanisation, and streamlining of functions, and I accept that there are sound reasons for providing for increased effort in a few areas. But I doubt whether you have made sufficient allowance for savings from recent staff inspections or (over and above changes already foreseeable) from future ones; the margin for some current policy developments seems generous; and I would question the implicit assumption that in future staff in post will be brought fully up to complement (though I do not doubt that the gap in the inspectorate will be much reduced) and that in addition there will be no reduction in the present level of supernumerary posts.

- ii) examine the additional options for producing larger reductions identified in your letter of 31 March. The winding up of Division IV, Finance Branch looks to be feasible in a year or so and I hope that you can agree to it now. The proposals to make the UGC responsible for employment of its own staff and to hive off the Computer Board Secretariat may also be worth pursuing, but, since the benefits in terms of civil service numbers

are purely cosmetic, I suggest that they be assessed on their wider merits in due course and that we disregard them for immediate purposes. As regards your less favoured options, while I appreciate the problems associated with partial or total abolition of Architects and Buildings branch which were set out in your letter of 31 March I remain to be convinced that its role is essential and I should like to consider this further with you. It remains to be seen whether your suggestion of contracting out certain office services (such as reprographics), although promising, will actually turn out to be cost-effective.

iii) take a more selective approach to your bid for increased HMI activity. Whatever the merits of greater HMI involvement in the areas you mention, I would wish to be clearer that existing effort was as well organised and managed as it could be before accepting that there was no scope for redirection of their current resources. I have also to consider the many equally pressing claims that colleagues have put to me, which in aggregate are incompatible with the objective we have set ourselves. I note, too, that it is proving difficult to recruit additional inspectors to make up even the present shortfall: an additional programme of the scale proposed seems very ambitious.

As you know before your additional bid was submitted my officials had concluded that your minimum requirements might be satisfied within overall figures of:-

1.4.85	1.4.86	1.4.87	1.4.88
2455	2400	2365	2325

I hope that we will be able to reach agreement at figures close to these.

All the above figures still include an allowance for the Office of Arts and Libraries, since the size of the transfer to OAL following the machinery of government changes remains to be determined. It would be extremely helpful if you were able to reach agreement with Grey Gowrie on this issue before my bilateral discussion with him on 12 September.

We shall also need to consider the expenditure implications of the manpower figures. I note that your additional bid would cost £1.5 million 1984-85 rising to £2.5 million in 1986-87, but that you have not made any bid for this.

Cabinet will not have the opportunity to discuss the provision to be made for pay in 1984-85 until mid-September. In the meantime, I suggest we should prepare for our bilateral discussion on the basis that there will be a single standard assumption about pay increases for the civil service etc, that it will be rather lower than the 5 per cent implicit in the present baseline and that the difference between 5 per cent and the agreed assumption

will, like last year be removed from all programmes before final decisions are taken.

Since territorial programmes are this year to be determined by the formula relating to comparable expenditure, I do not think they will require separate bilaterals. But Nicholas Edwards, Jim Prior and George Younger may wish to be represented.

Jim W W
HR

PETER REES