

~~PRIME MINISTER~~

Educational file
Andan
Not seen by the PM.

BBS

Sir Keith Joseph, having negotiated for some time with the Chief Secretary, has concluded that he can make no further concessions and that colleagues must judge the issues.

Rather unhelpfully he has decided to circulate all the correspondence to Cabinet colleagues (only last two exchanges attached).

- (i) This might provoke similar action from other colleagues.
- (ii) It fails to exhaust all remedies, in particular a meeting with you.
- (iii) It opens up substantive discussion earlier and with a wider range of colleagues than was proposed at your meeting with the Chancellor and Chief Secretary.

I have suggested to Sir Keith Joseph's Private Office that they either withdraw correspondence or ask other Private Offices to act upon it, until you have decided how to handle this.

Agree next step is for you to see Sir Keith next week, to try and resolve before Cabinet?

AT

12 October 1983



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

11 October 1983

Dear Chief Secretary,

1983 SURVEY

Thank you for your letter of 6 October.

As the Treasury's note of our meeting on 28 September records, I agree wholeheartedly with our overall strategy on public expenditure. But:-

- i. the long term scenarios about the economy and public expenditure now released to the press show that, alone among major programmes, education will take a declining share of GDP even on present policies;
- ii. in our Election Manifesto we took credit for the record pupil teacher ratio and increased access to higher education, and promised a further improvement in standards;
- iii. yet, as I pointed out in my letter of 6 July, the baseline for education as it stands provides for an 11 per cent reduction in expenditure in cost terms for the four years from 1982-83 while the weighted average of projected pupil and student numbers falls only by 5 per cent. This would mean, I said, "a sharp fall in standards of provision at all levels" and "a severe deterioration in pupil teacher ratios and less access to post-compulsory education."

/This

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

This is the background to our recent exchanges. In your letter of 5 September, and when we met on 28 September, you asked for:-

- i. substantial savings in the voluntary (mainly church) and direct grant colleges;
- ii. a reduction in grant to the Open University;
- iii. cuts in support for students by means of a further reduction in the real value of the grant itself, a stiffer means test and other measures; and
- iv. "efficiency" savings in the universities as a prelude to
- v. a 5 per cent reduction in grants to the universities in 1986-87.

I was willing to meet you in full on the first four of these proposals provided, in the case of the fourth, that the baseline against which the savings were scoped was realistic. On the fifth, I accepted that by this time next year we should be able to identify substantial and growing savings in the second half of the 1980's. (But, as you know, I shall want to retain these in my programme in order to improve standards in the schools.) You for your part have accepted only the need for inescapable estimating increases related to the larger number of students in higher education for which, as I have said, we took credit in the Manifesto (and of which about half the cost has already been reflected in savings in social security) and to the impact on international subscriptions paid from the science budget of the decline in the value of sterling.

① You have refused to accept the modest and much reduced additions to the university baseline, both capital and current, which are inescapable if its real value is to be maintained in accordance with the Prime Minister's undertakings in her letter of 7 June to the Association of University Teachers. ② You have also rejected my proposals, again very much reduced, for additional capital expenditure on schools and colleges, to be financed out of the very much larger savings you are seeking in other elements of local authority capital expenditure. The purpose of this addition is mainly to secure subsequent savings in current expenditure through the elimination of surplus places by rationalisation of the stock. You acknowledged on 28 September that you would have found this proposal attractive "in other circumstances." Finally, you have resisted, and declined (in your letter of 3 October) to discuss with colleagues concerned, Patrick Jenkin's proposals for local authority current expenditure after 1984-85, which I support even though they would imply an annual reduction in cost terms of about 2 per cent. Since education accounts for half the total, I have a large stake in this.

/I agree

I agree with you that our Cabinet colleagues must now judge between us. To help them to do so I am sending them (and Sir Robert Armstrong) copies both of this letter and of all our recent exchanges ie my letters of 6 July and 4 October, yours of 5 and 30 September and 6 October and the record of our meeting on 28 September. Meanwhile, since you have not provided an adequate baseline for the universities, I am bound to withdraw the savings there that I offered in my letter of 4 October.

Elizabeth Hodgkins

pp approved by the Secretary
of State and signed in
his absence

01 OCT 1983

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cc O Letwin

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

F E R Butler Esq
Principal Private Secretary
10 Downing Street
LONDON SW1

11 October 1983

Dear Robin, ^{FERB}

Thank you for your letter of 7 October. The information on school unit costs contained in my letter of 5 October was taken from statistics prepared by CIPFA on the basis of local education authorities' budgets and did indeed exclude debt charges, revenue contributions to capital outlay and overheads in the form of local authority and DES administrative expenditure. The cost of debt charges (which are not of course part of public expenditure in the ordinary sense) varies with interest rates in force at the time and the average age of an authority's building stock. The reported cost of local authority education administration varies according to the accounting practices of individual authorities, especially as to the extent to which central administrative expenditure is recharged to individual services. The cost per pupil can only be estimated by dividing between sectors pro-rata to gross expenditure the total cost of administration expenditure but on average adds only 5 per cent to the unit costs we have already given. DES administrative costs are equivalent to less than £5 per pupil.

Yours,
Elizabeth

MISS C E HODKINSON
Private Secretary

Educative : Expenditure : Pt 3

