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Treasury Chambers, Parliament Street, SW1P 3AG

Mr A Turnbull  
PS/Prime Minister  
No. 10 Downing Street  
LONDON  
SW1

14 October 1983

De. Andrew

PES: EDUCATION. PRIME MINISTER'S MEETING ON 17 OCTOBER

I attach as requested a note summarising the state of play on education and the main arguments on each side.

The Prime Minister may also care to know that the Chief Secretary will be meeting the Secretary of State for the Environment ~~on~~ earlier on 17 October for further discussions on the aggregate provision for local authority current expenditure in 1985-86 and 1986-87. Sir Keith Joseph and other Ministers with responsibility for individual local authority services will not be aware of this.

Yours sincerely

JG. Gieve

JOHN GIEVE



PUBLIC EXPENDITURE SURVEY - EDUCATION AND SCIENCE

		£ million		
		<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
<u>I THE BASELINE</u>				
1.	Baseline in Survey report	12,876.7	13,308.3	13,409.5
2.	Of which, local authority current (other than student awards)	9,618.6	9,920.6	9,920.6
3.	Remainder of <u>baseline</u>	3,258.1	3,387.7	3,488.9

Bilateral discussions have concentrated on line 3. Local authority current is being deal with separately (see V below).

The baseline has now <sup>been</sup> reduced as follows in the light of the Cabinet decision on public sector pay:

-23	-24	-25
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II AGREEMENTS TO DATE

Bids have been agreed as follows:-

Student awards (to take account of increased student <u>numbers</u> )	40	50	45
Science (increased cost of international subscriptions to CERN etc)	6	8	7
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The following savings have been agreed:-

Grant-aided colleges and Open University	5	7	10
<i>What charges?</i> Student awards (by changes in the <u>terms</u> of awards)	20	40	50
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	25	47	60

III OUTSTANDING ISSUES

a) Science

Outstanding bids of: 29 47 68

are to be considered in the light of the Prime Minister's meeting on 19 October. This is to explore the scope for re-allocation to DES from the Defence R and D programme.



b)	<u>Local authority capital</u>			
	Outstanding bid of:	50	50	50
	(reduced from an original	220	245	285)

The Secretary of State argues that this is necessary for:

- adaptations to school buildings necessitated by closures and mergers (which will themselves reduce current costs)

*Capital?*

repair work to schools and colleges

- major improvements to remedy defects in schools built in 1950s and 1960s.

He points out that, while local authorities have underspent heavily on other capital services, they have proved willing and able to spend up to provision on education. Some re-allocation between services should be possible.

The Chief Secretary argues that he cannot afford to meet the bid, or to redeploy in favour of education savings he is seeking from colleagues on other LA capital services. A vigorous programme of sales of surplus assets would help authorities to do more work within existing (net) provision of some £300m a year, which should be sufficient to meet the most pressing requirements. He notes that the Secretary of State agreed in the last public expenditure survey to reduce provision on this part of his programme by £16m in each year.

c)	<u>Universities - capital</u>			
	Outstanding bid of:	— 12	— 12	12
	(reduced from an original	25	25	25)

The Secretary of State argues that this is required for:

- <sup>4</sup> additional spending on medical and dental school projects, postponed from earlier years
- rationalisation of the London colleges
- expenditure to make good defective buildings
- <sup>7</sup> increased equipment grants to make good shortcomings in laboratories.

The Chief Secretary argues that any essential expenditure under these heads should be considered a priority charge on existing provision. Universities can help themselves by selling off surplus assets. He is not convinced that extra net capital expenditure is required to achieve rationalisation in London.

d)	<u>Universities - current</u>			
	Outstanding bid of	25	30	40
	(reduced from an original	25	45	70)



If this is accepted, but not otherwise, the Secretary of State will agree to efficiency savings of:

	-7	-14	-22
resulting in net additions of:	18	16	18

He argues that unless additions are made to cover a number of inescapable cost increases and thus to preserve the real value of present provision, the universities cannot be pressed to improve their efficiency.

The Chief Secretary however considers that significant net savings should be sought in administration and support services in the first two years and also a reduction of £75 million in 1986-87, in view of the need for a further round of rationalisation as student demand declines. The Secretary of State recognises the scope for important reductions in the medium to long term but is anxious not to prejudice the UGC's present consultative exercise on the future of the university system.

#### IV OVERALL POSITION

The Secretary of State is seeking net additions of:

	130	136	140
or, excluding the outstanding science bid (a) above)	101	89	72

The Chief Secretary finds it very difficult to contemplate net additions in the first two years and is seeking net reductions in the final year.

#### V LOCAL AUTHORITY CURRENT

The issues of the aggregate and distribution between services of local authority current expenditure are being handled in separate multilateral discussions. Decisions were taken in July on 1984-85. Inter alia these increased the education baseline by £177 million.

The Chief Secretary has proposed provision for services in 1985-86 and 1986-87 which implies growth in cash of 3½ per cent and 3 per cent in the two years; and provision for aggregate expenditure (including the margin which is not allocated between services) implying growth of 1¾ per cent



in each year. The Secretary of State for the Environment has proposed instead increases in aggregate provision of 3 per cent and 2 per cent in each year. The Secretary of State for Education and Science supports the latter proposals.

Neither set of proposals goes down to the level of individual services. The distribution between services will be determined once the totals have been decided. Sir Keith Joseph is seeking cash increases of  $3\frac{1}{2}$  per cent and  $2\frac{1}{2}$  per cent for education.

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13.10.83