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DEPARTMENT OF EDUCATION AND SCIENCE

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FROM THE SECRETARY OF STATE

21 October 1983

Dear Andrew,

Public Expenditure Survey: Education

Thank you for your letter of 17 October.

In paragraph 6 you identify a number of issues on which the Prime Minister asked for more information.

LOCAL AUTHORITY CAPITAL EXPENDITURE

The present allocation for education in 1984-85, including some £30m on account of 50 per cent of forecast receipts from sales of land and buildings, is just under £300m. Details of its distribution and of the means by which it is controlled are given in the Annex.

UNIVERSITY CAPITAL EXPENDITURE

The breakdown of the present allocation of £125.45 million for 1984-85 and the additional capital bid is as follows:-

	<u>Baseline Provision</u>	<u>Original</u> <u>Additional bid</u>	<u>Revised</u> <u>bid</u>
	<u>£m</u>	<u>£m</u>	
a. Equipment grant	86.95	10.3	80
b. Medical projects	12.375	3.6	40
c. Other major university projects	11.19	4.0	
d. Computer Board capital expenditure	13.139	3.7	
e. Open University grant for capital expenditure (including equipment)	1.8	-	
	<u>125.44</u>	<u>21.6</u>	<u>12.0</u>
		/a. Equipment	

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

1 As discussed at your meeting with Sir Keith.

- a. Equipment grant provides mainly for scientific and research equipment.
- b. The baseline does not include provision for any new projects to start in 1984-85. Of the additional bid only £2.08 million is for new projects, including the rationalisation of London's medical schools. None of these will be UGC controlled projects. Medical schools have to be integrated with teaching hospitals. Decisions about their location, rebuilding etc are taken by the Health Departments. These projects do not increase the output of doctors.
- c. Only £0.3 million of the baseline provision is available to start new projects in 1984-85. Of the additional bid £2.4 million is for new projects including some provision for the restructuring of London University. About £1.6 million of the additional bid is needed for repair of buildings of defective construction.
- d. This covers the purchase of computer hardware.
- e. No new projects are planned to start in 1984-85.

Other university building work

Universities are expected to fund building maintenance and all projects costing under £1m from recurrent grant. Expenditure on maintenance is currently about £12m a year too low. It will need to be significantly increased as the proportion of buildings over 20 years old - the period of peak need for major overhaul - trebles between now and the end of the century.

UNIVERSITY STUDENT: STAFF RATIOS

The G B average, all subjects, has moved as follows:-

1972-73	8.4	
1978-79	9.3	
1980-81	9.4	
1981-82	9.7	
1984-85	10.0	(Projected)

SSRs have been progressively squeezed over the past decade. They have not been squeezed more as a result of the 1981 cuts because the University Grants Committee took the view - in which Ministers acquiesced - that some restraint on student numbers was desirable in order that the research effort of the universities should be damaged as little as possible.

The total number of academic and academic-related posts is expected to fall by about 6,000 (from 43,000 to 37,000) between 1981 and 1984 - 4,000 redundancy and 2,000 by natural wastage.

TEACHERS

You also record at the end of your letter that the Prime Minister was concerned about teacher numbers in schools. It is true that numbers have not fallen as fast as the Government planned - partly because of the practical difficulties (including those associated with school closures) of achieving contraction while maintaining the curriculum, and partly because some authorities have preferred to make savings in non-teaching staff, books and repairs and maintenance rather than reduce teaching staff in line with Government plans. But in the four years since 1979 there has been a reduction of 6 per cent from 441,000 to 415,000, compared with a fall of 10 per cent in pupil numbers, resulting in an improvement in the pupil teacher ratio, mentioned in the Manifesto, from 18.9 to 18.1. Over the same four years the number of non-teaching staff in education has fallen by nearly 11 per cent. Numbers in all local authority services (excluding law and order) have fallen by 5 per cent.

I am sending a copy of this letter to John Gieve.

Yours,

Elizabeth

MISS C E HODKINSON
Private Secretary

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ANNEX

Local authority capital expenditure on education 1984-85

On present plans PES provision for 1984-85 for LEA capital expenditure, including 50% of forecast receipts (see paragraph 6 below), is £296.5m. (This compares with £302.1m for 1983-84). It includes £11.5m for nursery education, half of which goes to the Urban Programme. Resources for schools and FE have yet to be divided between the sectors, but the split could be of the order of £213m for schools (excluding nursery education) and £72m for FE.

2 The first charge on these resources is committed expenditure arising from contracts for work started in previous years. The minimum realistic figure for this is £180m for schools and £36m for FE. A little more than half the schools' committed expenditure is likely to derive from basic need projects; and about one-third from the removal of surplus places.

3 About £30m will be required for new basic need projects. Despite the sharp decline in pupil numbers, population movement creates a continuing, though much reduced, basic need for new school places; and, after committed expenditure, this is the first call on available resources because LEAs have statutory obligations to fulfil.

4 This would leave, on the basis of the present provision for 1984-5, some £40m to be distributed between removing surplus school places; the capital needs of non-advanced and advanced higher education (outside the universities) mainly computers, other equipment, and new buildings; special schools; improvement to old or dilapidated schools; and land and equipment, mainly for schools which will need to be built or extended.

System of controls

5 The Local Government, Planning and Land Act 1980 has transformed the Government's control over local authority capital expenditure and make it looser. Before 1981-2, the DES itself controlled the programme of capital expenditure of each LEA by giving each an annual programme of educational building starts regulated by the capital value of the projects, and backed by individual loan sanctions. The present control relates only to the capital expenditure of each local authority for all its services, bites not on the starts in the year in
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question but on the total expenditure incurred during it, and is conducted centrally by the DOE. Although DES, along with other service Departments, announced annual capital expenditure allocations to authorities, individual authorities enjoy powers of virement which enable them to pool their allocations from different Departments and dispose them between services as they choose. Individual loan sanctions are no longer required for projects; and expenditure allocations themselves carry a block borrowing approval.

6 Authorities may supplement their allocations by the use of capital receipts. From 1983-4 authorities as a whole are deemed to spend 50% of their receipts on capital items, and 50% of the estimated national total of receipts for each service has been added to the total of the allocations. In addition if a local authority wishes to spend more than its allocation by the use of capital receipts it has to raise receipts of an amount which is twice the extra it wants to spend, because it may apply only 50% of capital receipts to capital expenditure. The authority has an incentive to sell land and buildings, and receipts have increased steadily in recent years.

7 LEAs still need to get the approval of the Secretary of State for Education and Science for the particulars of individual building projects. This project by project control is concerned only with minimum standards and cost and is designed to secure value for money. It does not enable the Secretary of State to regulate an authority's level of capital expenditure. The responsibility of monitoring the capital expenditure of individual authorities rests with the DOE and relates to an authority's total level of capital expenditure, on all services, not on a particular service such as education. It would be lawful for an authority to spend more than the total of its allocations and its applicable capital receipts, unless a direction were issued by the Secretary of State for the Environment restricting the authority's right to make further payments or enter into new contracts.

8 Hitherto such directions have not been given. Authorities have not exceeded their expenditure limits but have consistently underspent in total. In education, on the other hand, the total expenditure in 1981-2 and 1982-3 was close to or above the limit of allocations plus receipts. To the extent that it has exceeded the limit, the position has been covered through virement from the allocations for other services within the same local authority.

9 LEAs' readiness to spend in full the total of the allocations given by

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DES, together with receipts, indicates that the incentive to raise capital receipts has been working for education. The freedom to apply receipts and to exercise virement can give rise to an overhang of committed expenditure in future years if receipts fall off or if virement is no longer possible from other service allocations. Such a situation would arise from the local authority's exercise of a freedom which the 1980 Act has conferred on it. The situation would arise from the local authority's exercise of a freedom which the 1980 Act has conferred on it. The situation also creates its own incentive to maximise receipts. But not every LEA that needs to spend more on capital e.g. to support school reorganisations can increase its capital receipts when those are required. For example it may need to incur capital expenditure before land can be made available for disposal or it may want to use e.g. surplus school playing fields for community purposes.

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