



10 DOWNING STREET

Prime Minister ²

Unlike other Ministers
Mr Baker has copied his
bidding letter quite widely.

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11/6

Aschmayer



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DEPARTMENT OF EDUCATION AND SCIENCE

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FROM THE SECRETARY OF STATE

CONFIDENTIAL

The Rt Hon John MacGregor OBE MP
Chief Secretary of the Treasury
Parliament Street
LONDON SW1P 3AG

11 June 1986

Dear John,

1. Education is at the centre of the political stage. I have inherited policies which are widely supported but equally widely seen as underfunded. Our decisions in this PES round will be crucial. We must give ourselves the means to implement our own policies and demonstrate to the public that we are in earnest.

2. E(LA) is dealing separately with local authority current expenditure. I have now reviewed the Vote expenditure which forms the remaining 25 per cent of my programme and have reached the conclusion that increases are necessary to restore credibility to the Government's policies for education and science. I list below my additional bids. They are not in a particular priority order: they represent in my view the minimum necessary increases to achieve Government objectives or to meet unavoidable commitments.

£ million

| | 1987-88 | 1988-89 | 1989-90 |
|---------------------------------|--------------|--------------|--------------|
| Universities | 114.0 | 164.0 | 216.0 |
| Science | 50.0 | 65.0 | 75.0 |
| Maintained sector | | | |
| capital expenditure | 150.0 | 150.0 | 150.0 |
| Continuing education | 10.4 | 12.9 | 18.4 |
| EEC Higher Education programmes | 5.0 | 6.5 | 11.0 |
| Student awards | 8.0 | 15.0 | 18.0 |
| Cranfield | 3.5 | - | - |
| DES running costs | 5.0 | 6.0 | 7.0 |
| | <u>347.9</u> | <u>419.4</u> | <u>495.4</u> |

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Universities

3. Keith Joseph told the House on 20 May that we would consider increased funding for the universities. The additional provision which I am seeking consists of three elements:

| | £ million | | |
|-------------------|------------|------------|------------|
| | 1987-88 | 1988-89 | 1989-90 |
| Level Funding | 64 | 98 | 130 |
| Pay restructuring | 40 | 56 | 71 |
| Equipment | 10 | 10 | 15 |
| | <u>114</u> | <u>164</u> | <u>216</u> |

4. It would be political folly for this Government to preside over university insolvencies or closures, whether deliberately or by default. Yet universities are accumulating overdrafts which they will not be able to repay from present funding or from reserves. My bids do not amount to a policy change or a retreat. The emphasis of our policies for higher education has been on increasing cost-effectiveness. These policies are working. We have maintained access to higher education while securing a shift to science and technology; we are ensuring a greater selectivity of funding in support of quality and rationalisation; we have provoked the university system to pay greater attention to management efficiency; and the proportion of university funding from outside sources has increased by 50% since 1979.

5. These gains will be endangered if we continue with the present baseline. If we do not find more money, it will lead to a contraction of the university system and a sharp initial increase in expenditure to pay for redundancies and premature retirements. This will also mean the denial of access to universities and a reduction in research. Worst of all, it will force us to abandon our policy of selectivity to concentrate on shoring up the existing system as best we can.

6. Instead, as Keith Joseph had hoped, we must take the initiative. A promise of level funding can be used to secure an agreed action programme to press home our policies of selectivity, improved standards of teaching and better financial management. We are already discussing such a programme with the UGC and the CVCP. My intention is to announce an agreed programme at the same time as the autumn public expenditure statement.

7. Better pay and equipment are both necessary if the universities are to play their proper role in the economy. Universities need more money used selectively to enable them to recruit and retain good academic staff. This is a serious problem, particularly in key areas for the economy. Today's undergraduates must also train on equipment used in industry rather than, as is too often true, on the valve-operated technology of fifteen of twenty years ago.

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8. The pay restructuring element of the bid is contingent on an acceptable outcome to present negotiations. The CVCP and the AUT seem to be willing to see a more discriminating pay structure introduced: both realise that additional money will depend upon reaching a deal of which Ministers can approve.

Science

| £ million | | |
|-----------|---------|---------|
| 1987-88 | 1988-89 | 1989-90 |
| 50 | 65 | 75 |

9. In science too, our success in rationalising research and moving it closer to industry could be jeopardised by failing to maintain and enhance the quality of the science base. The science community has pulled its weight in efficiency and restructuring: 600 jobs have been lost in each of the last three years from the AFRC, to give one example. But the lack of new prospects, and severely constrained equipment budgets, are causing more talented British scientists to vote with their feet, and take up jobs in research laboratories in competitor countries. The morale of our scientists has rarely been lower.

10. Obviously we cannot afford to underwrite the unconstrained aspirations of the scientific community. Limits have to be set. But in setting those limits we need to have regard to the investment policies of our economic competitors, since science is an international activity; and to the pressure of national needs, in particular the development of new technologies. These factors argue strongly for an increase in our investment in the science budget.

11. The amounts I propose will enable the Research Councils to build up particular programmes in response to national needs and help them to replace out-worn and obsolete equipment. The figures take account of the scope for savings from redeployment. They also make some allowance for the effects of the recent Civil Service pay settlement and of the drop over the last few months in the value of the £ against relevant European currencies. These two factors alone add an additional £18m annually to Research Councils' costs from 1987-88. There are a number of other prospective pressures on the science budget which are not included in the figures because of my concern to keep the bid to a minimum.

Maintained Sector Capital Expenditure

| £ million | | | |
|------------------------------|------------|------------|------------|
| | 1987-88 | 1988-89 | 1989-90 |
| County and voluntary schools | 115 | 115 | 115 |
| Further and higher education | 35 | 35 | 35 |
| | <u>150</u> | <u>150</u> | <u>150</u> |

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12. With £150 million in each year I can begin to grapple with the serious problems of the physical deterioration of schools and the under-resourcing of polytechnics and colleges.

13. The state of school buildings is now a matter of mounting political and public concern. Forceful criticism has come from the Audit Commission, the NEDC, HMI and members of all parties. The executive of the 1922 Committee recently drew attention to the 'stark contrast' between the conditions which children enjoy at home and those in their schools and expressed the view that 'education has become the most urgent priority and one which demands immediate action'.

14. Preliminary results of a recent survey of school buildings confirm the need for a substantial and sustained injection of resources. We are committed to make known the full results of the Survey this autumn and I must by then be in a position to tackle these problems.

15. My bid for schools is the minimum that would be credible. It would begin to restore my ability to match capital allocations to those urgent priorities on which LEAs are ready to spend from their own resources. There is no such match at present. Our top priorities - basic need and removal of surplus places - have only been covered at the expense of committed expenditure. On present plans, even those priorities would be jeopardised. Authorities, like Buckinghamshire, Devon and West Sussex among others where total 1986-87 allocations are not enough to cover their commitments, would be deterred from undertaking essential rationalisation schemes. Nor is there any cover at all for work to remedy the dilapidation and educational unsuitability of school buildings. Not only is the state of school building making it increasingly difficult to carry out teaching in a cost-effective way; many buildings are becoming unsafe to the point where laboratories, for example, can no longer be used. This is where we are most vulnerable; where increased spending will achieve quick and visible results, and where LEAs are demonstrating their willingness to invest.

16. I also require £35 million extra a year for capital spending on buildings and equipment in polytechnics and colleges of further education. The most pressing need is for equipment. We have been roundly criticised by employers, led by the CBI/Colleges panel and the IT skills agency, for failing to provide students with access to the sort of machinery commonplace in industry. The Council for National Academic Awards has announced that present resourcing policies will, if continued, force them to choose between accepting lower quality degree courses or withdrawing course approval in some poorly-equipped institutions. This would be particularly damaging at a time when we have been pressing further and higher education to increase the output of manpower qualified in scientific, engineering and other vocationally-related disciplines.

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Continuing Education (the PICKUP programme)

| £ million | | |
|-----------|---------|---------|
| 1987-88 | 1988-89 | 1989-90 |
| 10.4 | 12.9 | 18.4 |

17. Since 1982 my Department has, with modest funding, run the Professional, Industrial and Commercial Updating Programme (PICKUP) to stimulate training for adults in universities, polytechnics and colleges. The programme has been enormously successful in an area where Britain lags well behind her competitors. It is also moving higher education closer to industry.

18. My bid is aimed at a rapid expansion of mid-career training and updating for those in work. It is obviously right that the main spending on such activity should fall on the employers and individuals who will benefit. But before income from fees becomes available, investment by the universities and colleges in market research, course design and marketing is essential. They cannot make that investment from existing resources. The urgency and scale of the need to restore competitiveness and make good past neglect demands an investment of public funds to prime the pump on the scale I am seeking. My aim is to achieve by 1991-92 a five-fold increase in the present volume of updating training provided for employers by universities, and colleges. Pilot studies - the Coventry Consortium is an example - shows that rapid growth is possible. I intend to relate earmarked grants to targets for expansion. This is the minimum necessary to match measures which the Government is taking, through the MSC and other channels, to stimulate commerce and industry to recognise the importance of a well-trained and up-to-date workforce.

European Aspects of Higher Education

| £ million | | | |
|-----------|---------|---------|---------|
| | 1987-88 | 1988-89 | 1989-90 |
| COMETT | 0.4 | 0.6 | 1.0 |
| ERASMUS | 2.0 | 3.0 | 6.0 |
| EC Fees | 2.5 | 2.9 | 3.8 |

19. My bid is designed to enable the United Kingdom to participate in the following programmes:

- (i) **COMETT.** This programme, to which we are now committed, complements at a European level the Government's general policy of encouraging closer links between industry and higher education and to improve economic performance. We supported the programme in the Council of Ministers which will develop transnational schemes aimed at improving the supply of skilled manpower; extending the skills of those already in industry; and strengthening contacts between academics and industrialists.

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- (ii) **ERASMUS** is designed to increase the mobility of students in order to improve academic performance. It has yet to be endorsed by the Council. Some member states support the full programme but we and others have reservations about the cost. My bid assumes that the scheme will be launched at about half the level proposed by the Commission. That would permit a substantial development of existing Community joint study programmes with potential benefit for improving awareness of the European dimension in our foreign trade and an early introduction to the importance of language skills in trade with the Community.

In addition my bid includes:

- (iii) **EC Fees**. In view of the threat of Treaty infraction proceedings because we charge students from other Community countries a tuition fee while that for home students is paid as part of the grant, you have agreed that the Government should in future pay fees for EC students. The concession will help to avoid retrospective payments back to our accession to the Community, and will safeguard the UK's position on maintenance awards. I cannot absorb the cost of this concession within my baseline.

20. These European items would not have been my priorities for higher education and, in view of my other bids, I cannot find offsetting savings from within my own programme. It would be wrong to forego essential domestic provision in order to finance a UK share of European initiatives which, though desirable, can be expected to have their impact only in the longer term. But we are politically committed to giving a high priority to the creation of the internal market and, during the EC Presidency in particular, we should be in a position to play a constructive role in the development and implementation of related Community proposals in higher education. At this stage, the costs must be regarded as provisional but they reflect my judgement of the minimum price to enable us to play our full part in the Community.

Student Awards

| | £ million | | |
|--------------|-----------|---------|---------|
| | 1987-88 | 1988-89 | 1989-90 |
| Maintenance | 5.0 | 10.0 | 11.0 |
| Tuition Fees | 3.0 | 5.0 | 7.0 |

21. Present plans assume that the student maintenance award rates will increase from 1987-88 at less than our estimates for inflation as measured by the GDP deflator. There are strong political arguments for an increase in line with the GDP deflator and that is what my bid seeks. The value of the award will have decreased in real terms by about 14% between the academic years 1979-80 and 1986-87 - a period during which the parental contribution has increased from 20% to 35%. I am sure that we have been right to seek a higher

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proportion of the cost of student support from students and their families. But the combination of the drop in the value of the grant, the action that we are taking on student benefit disentanglement and increases in the parental contribution has been severe. The uprating in 1987-88 will be the last in the present Parliament and the process of erosion has gone as far as it can without serious political damage.

22. I also propose that tuition fees for courses covered by mandatory awards should be allowed to rise by the projected GDP deflator and that the fee element in the Awards Vote should be increased accordingly. Tuition fees paid from public funds as part of the student award system represent about 7.5% of universities' recurrent income to which the argument for the preservation of volume advanced in paragraph 4 also applies. In addition, the local authority interests will regard any decision to uprate tuition fees by less than the projected GDP deflator as imposing a further squeeze on the public sector of higher education that will encourage them in their argument that they cannot afford to admit the number of students who will be coming forward.

Cranfield: Privatisation of the School of Management

| £ million | | |
|-----------|---------|---------|
| 1987-88 | 1988-89 | 1989-90 |
| 3.5 | - | - |

23. My predecessor discussed with some of the University Business Schools the possibility of one or more of these institutions developing privately as a centre of excellence without grant from this Department or the UGC. £3.5m in 1987-88 only would provide for a once only payment sufficient to secure the privatisation of the Cranfield School of Management. This is a strong school which has made an extremely modest proposal compared with some others, notably LBS. The future of management education is an important issue and I am convinced that a positive response to the Cranfield proposal would be well received as well as providing a stimulus to improvement elsewhere. The political advantages are obvious.

Departmental running costs

| £ million | | |
|-----------|---------|---------|
| 1987-88 | 1988-89 | 1989-90 |
| 5.0 | 6.0 | 7.0 |

24. I know that Keith Joseph discussed with you the inadequacy of existing provision for Departmental running costs. I am writing to you separately about the problems which have already arisen for 1986-87. I simply say here that present levels of funding and manpower do not permit the level of service which my colleagues and I must have if we are to promote our policies. My bid is designed:

- (i) to make adequate provision for the non-pay costs of administering my programme: it will be essential to have adequate resources to present the success of our policies.
- (ii) to meet the costs of a level of staff appropriate to the tasks involved: my bid is for 90 additional staff above the 1 April 1987 manpower ceiling of 2417 with staff numbers being held constant thereafter.
- (iii) to meet the continuing costs of the 1986-87 pay settlement and of likely pay increases over the Survey period.

25. In addition to these bids, there are some minor switches between sub-programmes within my baseline required to reflect agreed changes in Estimates. My officials will be writing with details. The detailed level of control now being assumed in respect of minor changes represents in my view a retrograde step which undermines the principles established in the FMI. If I am to manage my overall programme with maximum regard to value for money as I seek to do, I must have a minimum degree of flexibility to take account of changes in the emphases of spending or to accommodate the introduction of new priorities by appropriate redeployment. My intention is to do so by appropriate adjustments within my overall programme, once the totals have been agreed between us. If that is not possible under the Survey arrangements for this year, then I reserve the right to add to my additional bids.

26. I have confined my bids to those which I regard as essential, and to a scale which I believe to be both realistic and compatible with the continuing need to restrain public spending. To do less than I am proposing will damage not only the education service but also the standing of the Government.

27. I am copying this letter to the Prime Minister, the Lord President and the Secretaries of State for Scotland, Wales, Northern Ireland, Employment, Trade and Industry, Environment and Foreign and Commonwealth Affairs.

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FROM THE SECRETARY OF STATE

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11/6.

The Rt Hon John MacGregor OBE MP
Chief Secretary of the Treasury
Parliament Street
London SW1P 3AG

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11 June 1986

Dear John,

Public Expenditure Survey

I have written to you separately about additional bids for the education vote programme in 1987-88 and later years. The purpose of this letter is to remind you of the continuing discussions under the Prime Minister's chairmanship about more wide-ranging reform, including the possibilities of reintroducing direct grant schools and other options for increasing variety and quality in the schools system. I am reflecting further on this but we should not rule out the prospect of taking some initiatives on this front before the next election. I shall bring forward firm proposals as soon as I am able to do so. My preliminary view is that we may need to think in terms of spending something of the order of £25-50m to make it plain to the public that we mean business. Both because of the sensitivity of the issues and the stage of development of my proposals, I have not included this within my formal PES bids.

I hope soon that we may also have a further word about local authority capital. I am sure that we must do something this year. Perhaps we might explore further my suggestion that I might reduce my 1987-88 bid for local authority capital in return for some increase in allocations this year.

I am sending a copy of this letter to the Prime Minister.

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