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John Major

**EDUCATION, SCIENCE AND ARTS COMMITTEE REPORT:
DES EXPENDITURE PLANS**

in bold attached to p 39
I attach a draft reply to the Education, Science and Arts Select Committee's report on DES Expenditure Plans, which was published in May.

The Committee's recommendations cover a wide range of topics; the draft response takes into account contributions from the other Departments most closely concerned.

I should like to publish the response as soon as possible, and - as in earlier years - as a Command Paper. I should be grateful to have any comments on the text by 19 September.

I am copying this letter to the Prime Minister, to members of E(EP) and to Sir Robin Butler.

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DEPARTMENT OF EDUCATION AND SCIENCE EXPENDITURE PLANS 1988-89 TO 1990-91 (CM 288): GOVERNMENT RESPONSE TO THE FIRST REPORT FROM THE EDUCATION, SCIENCE AND ARTS COMMITTEE, SESSION 1987-88

Introduction

1. The Government welcomes the first report from the Education, Science and Arts Committee on DES and OAL expenditure plans. The OAL has responded separately.

2. The Committee makes twenty-one recommendations in its Report on DES spending plans: this response sets out and comments on each recommendation in turn. The response, insofar as it relates to DES responsibilities for local authority education matters, refers to the position in England.

Local Authority Expenditure

We recommend that DES find ways of providing in future White Papers more accurate figures for the details of local authority education spending for the immediate past year and also figures for the current year which more nearly reflect LEAs' actual budgets (para 11).

3. The Department has responded to this concern by expanding the annual returns of expenditure and rates (RER) in 1988 to include details, for each main sector of education, of spending for the immediate past year and of budgets for the current year. This new information, while necessarily much less detailed than local authorities' full returns of actual spending in the immediate past year which become available later, should help to meet the concerns expressed by ESAC.

We recommend that the DES's planning process, which underlies the White Paper, should in future recognise fully the tentative nature of the "plans" for those parts of the DES programme which are not directly controlled by central government (para 13).

4. As Chapter 3, paragraph 3 of Cm 288 (Volume 1) makes clear, the Government fully recognises that local authorities have considerable discretion over the amount of, and priorities for spending on particular services or sectors of services. The DES chapter of Cm 288 states that the provision for local authority spending reflects the Government's expectations of what LEAs are likely to spend. As to the future, on 26 July 1988 the Government published a White Paper entitled "A New Public Expenditure Planning Total" (Cm 441) which proposes changes in the coverage of the public expenditure planning total when the new arrangements for local government finance come into operation on 1 April 1990. The proposed changes are in line with the Select Committee's recommendation in that the new planning total will distinguish more clearly those elements for which central Government is responsible from spending which local authorities determine and finance themselves. The presentation of Departmental programmes will reflect these changes.

We recommend that, in future, if the DES make clear in the more detailed parts of their "plans" for schools the areas in which it is hoped there will be increases they should also show those where it is hoped that decreases will take place (para 14).

5. The text of the DES Chapter of Cm 288 reflects the Government's view that in the context of its "plans" and the total for the education component of the grant related expenditure, it looks to authorities to reduce teacher numbers while pupil numbers continue to fall (para 16), to take more surplus school places out of use (para 16), and to make greater economies generally, including taking advantage of the scope that exists to cut the net costs of the school meals service, and of cleaning and caretaking (para 15).

Teachers' Pay

We share the Government's desire to raise teacher quality, including the move to raise schoolteachers' pay and alter the pay structure. It will be necessary in time to demonstrate that such quality has indeed resulted from the large additions to public expenditure which have been needed to pay for higher teachers' pay in 1986-87 to 1988-89 and from the changes in their pay structure (para 17).

6. The Government believes that pay settlements for school teachers should:

- (a) have due regard to the need to recruit, retain and motivate sufficient teachers of the right quality,
- (b) support effective management of the schools and provide for proper career-long development and incentives for teachers, and
- (c) have due regard to affordability and the needs of the national economy.

7. The increase in the schoolteachers' pay bill between 1986-87 and 1988-89 reflects these concerns. A new pay structure was introduced in 1987 under which incentive allowances could be paid where a teacher's employer was satisfied that he or she fulfilled at least one of four criteria related to responsibilities, outstanding classroom teaching, shortage subjects and posts difficult to fill. This year's Report from the Interim Advisory Committee on School Teachers' Pay and Conditions reinforced the importance of the incentive allowances.

8. The Government agrees that teacher quality is important. It believes that pay levels and the pay structure have a part to play in influencing recruitment and retention and in maintaining and improving motivation. But teacher quality results from a wide range of factors whose impact cannot be separately identified: these include, as well as pay incentives, in-service

training and other initiatives to help teachers improve their performance. The Department is continuing to develop its work on performance indicators for schools.

Numbers of Schools and School Places

We recommend that the Government should publish each year an indication in a systematic form of their expectations - distinguishing between primary, secondary and special education and between LEA maintained, grant-maintained, CTC and other schools - for the following year for school numbers and school places, related to the numbers of pupils and of teachers (para 27).

9. Annual targets for the removal of surplus places are already published which take account of projected pupil numbers, assessed capacity in the system and the progress already made by local education authorities in removing the surplus. It is for local education authorities to plan their provision having regard to their particular circumstances and to the need to provide an effective and economic service. The number of maintained schools will depend upon the outcome of proposals published by local authorities and governing bodies under the provisions of the Education Act 1980. Similarly, numbers of CTCs and grant-maintained schools will depend in the first instance on the individual decisions of sponsors, parents and governing bodies amongst others. It would not in the Government's view be helpful to attempt to anticipate these local decisions by preparing figures of the kind suggested.

Performance Indicators

We recommend that the DES make strenuous efforts to discover why there appears to have been a halt in improvement in exam results since 1983-84 (para 30).

10. The proportion of the age-group taking examinations rose during the 1970s and early 1980s and has now levelled off with 90% of the age-group achieving one or more graded results in GCE

or CSE from 1983 onwards, and some 20% achieving one or more graded results in A levels. The Department considers that the apparent levelling off of increases in the levels of attainment is explained very largely, if not entirely, by statistical considerations, including the distortion of the figures (which are based on annual surveys of school leavers) resulting from a reduction in the staying-on rate in 1983 and immediately succeeding years and hence an over-representation in the figures of 16-year-old leavers whose attainments are in general lower than those staying on to 17 or 18.

11. Continued increases in the levels of attainment cannot be expected with a stable candidate population and a system of examinations based largely on norm-referencing. The Government's policies for the national curriculum and associated assessment are however designed both to establish absolute (criterion-referenced) standards to be attained and to raise the standards actually attained so that more pupils achieve success across a wider range of subjects.

It would much assist the committee if the DES were to begin to publish some of the further performance indicators which they have been developing and we so recommend (para 31).

12. In its response to the Committee's report on DES expenditure plans for 1987-88 to 1989-90 the Government expressed its intention to develop and improve the range of performance indicators for different sectors of the education service, and where appropriate to relate them to the relevant section of the Department's entry in the Public Expenditure White Paper. In addition to the information on national examinations, Cm 288 provided information on targets for removal of surplus school places; for staff:student ratios in NAFE; and for various areas of the Science budget.

13. The Department intends to publish further information on such performance indicators where possible.

The GCSE

Given the crucial importance of new books and equipment and of the GCSE itself to the future wellbeing of education, we recommend that the DES keep provision for the new exam closely under review (para 34).

14. The Department and HMI continue to monitor closely the progress of GCSE. HMI are looking carefully at all aspects of the new examination, including the provision of books and equipment, and intend to produce a further report in the autumn.

15. Education Support Grant provision for GCSE books and equipment was intended to help LEAs meet the additional costs associated with the introduction of the new examination courses in 1986, not to substitute for longer term planning by local authorities to maintain and enhance stocks. As in 1987-88 and 1988-89, the Government will take into account the need for continuing expenditure on books and equipment for GCSE in the forthcoming Rate Support Grant settlement for 1989-90.

Local Authority Capital Expenditure

We welcome the increase in planned capital expenditure on schools in 1988-89, although we would not expect to see a fall of over 60 per cent in spending on further and higher education. Indeed we would be concerned at the effect on FHE if a fall of such magnitude were to occur. We hope that the new capital control system to be introduced in 1990 will allow the DES in future to make more accurate forecasts of capital expenditure levels (para 40).

16. The Government notes the Committee's comments. The figures for local authority capital provision in future years are divided between schools and further and higher education in proportion to the distribution of capital allocations between those two sectors. The outturn will depend on local authority decisions on the use of the total capital spending power at their disposal. The Government has published a consultation document setting out

proposals for a new system to regulate the capital expenditure and finance of local authorities.

Specific Grants

The DES and DE should in future present more information in the White Paper -or possibly in some other easily accessible form - about success or failure of different specific grants assessed in terms of the Government's objectives for them (para 42).

17. The two major specific grants administered by the DES are the Education Support Grants programme and the LEA Training Grants Scheme. Expenditure on all elements of both programmes is monitored at both LEA and Departmental level, and grant-supported activity is evaluated against objectives by the Department. The Training Commission administers the TVEI and Work-related NAFE schemes. TVEI pilot projects are comprehensively monitored and evaluated at national and local levels. A full review of the Work-related NAFE agreement was carried out in the summer of 1988. In accordance with the Committee's recommendation, it is proposed to include key findings of the evaluation exercises in future Public Expenditure White Papers. Some evaluation reports, such as on the TVEI-related In-service Training Scheme, have already been published separately.

Higher Education Places

We recommend that the Government should give an indication of their preliminary views on the balance between university and non-university higher education places in the 1990s, and the reasons for them. This should include a review of the balance between full time and part time students, and of the weighting given to part time places in the funding of higher education (para 44).

18. In the White Paper "Higher Education: Meeting the Challenge" (Cm 114) the Government adopted as its best assessment of future student numbers Projection Q, the higher of the two projections in "Projections of Demand for Higher Education in Great Britain,

1986-2000". This provided detailed figures to the year 2000, including a split between the university and non-university sectors for both full-time and part-time students.

19. As noted in Cm 288, the projection has been adjusted upwards in the light of the latest information on student numbers. It remains the case that the Government is planning for student numbers to increase over the next few years; to return to about present levels in the mid-1990s, notwithstanding a much more substantial decline in the traditional entry group; and then to grow again. The Government will continue to revise its projections taking account of trends in admissions and other developments, and will publish them from time to time. These projections inform the annual public expenditure round in which the Government decides the resources to be put at the disposal of the University Grants Committee and National Advisory Body. Under the Education Reform Bill, these bodies are to be replaced by the Universities Funding Council and the Polytechnics and Colleges Funding Council. It is for these bodies to set the planning framework for institutions in their respective sectors through the distribution of resources. As part of this process, it is for them to settle the appropriate weighting for part-time places.

20. Actual student numbers in the two sectors of higher education will, however, depend on the decisions of individual students and individual institutions. Institutions which combine an effective control of costs with a high quality of education will be able to recruit more students within the resources available to them.

Science

We conclude from the evidence presented to us by the ABRC and The Royal Society that there will be a likely reduction in the amount of science research which can be undertaken by DES research funds in the coming year (para 49).

21. In real terms (ie after taking account of general inflation as measured by the GDP deflator), the Science Budget in 1988-89 is 1.6% higher than in 1987-88. The ABRC, in its evidence to the Committee, excluded expenditure on AIDS research and research in Antarctica. These elements are however properly included as part of the overall Science Budget as determined by the Government in 1987. The Board also drew attention to the increase in costs arising from the 1987 pay settlements. After allowing for these costs there is still roughly level funding in real (GDP deflator) terms for the Science Budget in the current financial year compared with last year. In this as in other areas it is in any case the Government's view that the most important consideration is the benefit obtained from expenditure rather than the level of expenditure itself.

The Government have never given any indication of how far they hope civil R and D would be increased by extra funding from these two sources (ie greater funding by industry and switching some defence R and D) and we recommend that they should do so (para 51).

22. The Government has drawn attention on several occasions to the inadequate level of investment in R & D by UK industry. The DTI White Paper on Enterprise (Cm 278) indicated that where R & D was near to the market it should be funded by industry. The 1988 Statement on the Defence Estimates (Cm 344) referred to the Government's concern to ensure that defence did not preempt an excessive share of the nation's technological resources and said that the aim was to achieve a gradual reduction in the level of defence R & D over the next decade. The Government hope that these policies will encourage greater investment in R & D by industry as well as leading to better targeting of the Government's own R & D expenditure. The extent of any additional funding for civil R & D from these sources will depend on a variety of circumstances; global targets would not, in the Government's view, be appropriate.

We hope that the Secretary of State's provisional intention to give "greater priority" to science in the course of the 1988

public expenditure survey will indeed lead to significant relief of the very tight constraints on the current level of science research (para 52).

23. The Secretary of State has expressed the hope that it will be possible to give "greater priority" to science in this year's Public Expenditure Survey in the context of a coherent strategy and allied to continued care and economy in the use of resources. He made it clear that decisions in the survey are matters for the Government as a whole, to be taken in a wider context; those decisions will be announced in the Autumn Statement in the ordinary way.

Public Expenditure by Region

The Treasury Committee has suggested that the main figures in the White Paper should also be broken down into the English planning regions, as well as by country, and we support this proposal in respect of the figures for education (para 54).

24. As the Treasury explained in February 1988 in written supplementary evidence to the Treasury and Civil Service Committee, public expenditure is planned on a national basis and apart from expenditure which is the responsibility of the territorial departments, data are not disaggregated geographically. There are conceptual and technical difficulties involved in gathering the available detailed information and attempting to attribute it to a common definition of regions. The Government is therefore not able to undertake to publish figures on the regional basis which the Committee suggests.

Relative Price Movements

We recommend that the DES should include in the White Paper (a) indices of relative price movements for parts of the education programmes such as books and equipment and (b) tables of expenditure in more of the major items within the DES programme which take account of relative price movements (para 57).

25. Paragraphs 14-16 of the Government's response to the second report, session 1987-88, of the Treasury and Civil Service Committee (HC 292) conveyed the Government's view on the use of relative price information in the Public Expenditure White Paper. Briefly this is that it would not be an efficient use of resources to attempt to compile measures of relative price effects except where these are needed for management purposes. The central presumption of cash planning is that cash plans will not be altered to accommodate changes in relative prices or prices generally. Estimates of relative price effects for particular programmes are not used in the planning process and Departments do not generally assemble information about movements of costs in the way which would be necessary to produce such estimates. The Department does not have any plans to compile and publish relative price information.

Presentation of AFE and Schools Expenditure

We recommend that in future years' White Papers and other reports, the DES should present figures for advanced further education and schools in such a way as to allow future plans to be compared with past years' spending (para 59).

26. The Government will bear in mind the Committee's comments on presentation of comparative historical figures for advanced further education and grant-maintained schools in drawing up plans for the 1989 Public Expenditure White Paper. In the particular case of expenditure on advanced further education it may prove difficult to present the information the Committee wants because the creation of the PCFC sector involves transfers both within central government expenditure and between the local authority and central government sectors. It would also be necessary to divide AFE expenditure within local authority institutions, and suitable information is not available on this basis for past years.

School Statistics

It may be a result of the introduction of local financial management and of grant-maintained schools that some more detailed figures will become still harder to obtain and we therefore urge the Government to consider the collection of key statistics on a common basis in all different types of school (para 59).

27. The Department has ensured that much of the regular information collected annually from schools is consistent for all types of school: examples are pupil and teacher numbers, courses for older pupils and examination results. It accepts the case for consistency of data collection from City Technology Colleges and Grant Maintained schools as they come into existence.

Public Expenditure White Paper Format

The Treasury Committee has proposed that in future there should be separate expenditure reports for each Department rather than a single volume. We support this move (para 60).

28. The Government's memorandum to the Treasury and Public Accounts Committees (Cm 375) announced the Government's intention that the existing Volume 2 of the Public Expenditure White Paper should be split into separate departmental volumes containing each Department's expenditure plans, eventually to be published on or close to Budget Day. The separate Departmental volumes will be published for the first time in 1989.

Running Costs

The Committee recommends that the DES should provide details in future White Papers of the changes in running costs and manpower required to implement and administer the new system (para 65).

29. The Department will continue to give information on running costs expenditure and manpower to allow comparisons to be made

with earlier years as the changes introduced by the Education Reform Bill are implemented.

Agencies

The Prime Minister has announced new proposals for introducing agencies to carry out executive functions of government within a policy and resources framework set by the agency's parent department. It is not yet clear whether it is intended to apply this policy to any parts of the DES and we therefore recommend that in their reply to this Report the DES should outline their preliminary thinking on the application of the new policy to their Department (para 67).

30. In common with other Departments, DES has started to review its activities in relation to the Next Steps policy. It is too soon to say whether any agencies will be proposed, but the deployment of most of the Department's executive functions in support of policy work, and the existence already of non-departmental bodies such as the ABRC, UGC/UFC and PCFC for many areas of the Department's responsibilities, make this improbable.