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Not seen by PM.
No need to take
letter. Rec'd
14/10

ceff
Prime Minister
May like to note generally,
and X is possible.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker
Secretary of State for Education & Science
Department of Education & Science
Elizabeth House
York Road
London SE1 7PH

Rec'd
6/10

5th October 1988

For Ken,

1988 PUBLIC EXPENDITURE SURVEY : EDUCATION AND SCIENCE

This letter formally records the agreement which we have reached on your programme, as set out in the attached annex.

Polytechnics and Colleges Funding Council Sector

We agreed an addition to cover the costs of growing student numbers, of past pay and price increases and of shedding 1350 staff over the next three years. You agreed that no more money should be provided for any pay increase in 1989 and if pay costs exceeded what was allowed for, the polytechnics and colleges would have to meet the bill themselves. The addition for capital allows for the administrative equipment the polytechnics will need in their new, independent, role and is estimated to enable teaching and research equipment to be replaced within HMI's maximum replacement cycle of 9 years.

Universities

The agreed additional provision allows for a 5 per cent increase in academic pay in 1989 and 3.5 per cent and 3 per cent in the later years. It also covers the on-costs for clinical academics' pay of the 1988 DDRB award; an increased contribution to the cost of the Open University; and the remaining elements of your bid.

Science

We agreed a substantial increase in the Science budget, mostly for extra basic science. The increase also included sums for 5 additional IRCs next year; extra sums for Antarctica to meet the cost of the Rothera airstrip and replacing the Halley station; British Geological Survey (BGS); CERN; AIDS and the costs of near market research redundancies arising from previous decisions. We agreed that BGS's funding and fees should be reviewed. We also

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agreed sums to reflect capital expenditure by the Institute of Plant Science Research (IPSR) following the privatisation of the PBI/NSDO.

Student Awards

We agreed the implications for Student Awards of the change in the Covenant provisions announced by the Chancellor in the Budget. We also agreed increases to cover the cost of higher student numbers and increases in fees and maintenance grants in line with inflation. You agreed to increase parental contributions marginally faster than parental earnings and use the savings to help meet your bid for Oxbridge fees. You reserved the right to put forward modest proposals for relaxing the moratorium at minor costs that could be met from within your total agreed provision.

Maintained sector capital

The settlement provides for an allocation total to local authorities of £352 million in 1988-89. It also subsumes increases of £5 million a year for voluntary and grant maintained schools.

Running Costs

The settlement on running costs is subject to both departments reserving the right to re-examine it in a later Survey if forecasts of inflation change significantly; or if it becomes clear that Civil Service pay settlements during the PES period differ significantly from the assumptions in the management plan; or if the staffing requirements in 1990-91 and 1991-92 to implement the Government's education reforms differ significantly from the assumptions in that plan. Your management plan will need revision in the light of this settlement, and your officials should agree a revised version with mine to ensure delivery of the planned efficiency gains.

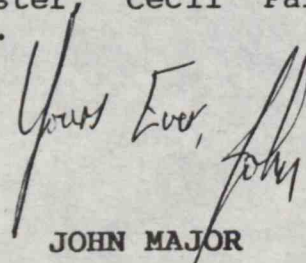
VAT

The increase agreed for VAT covers VAT on non-domestic construction and polytechnics capital. It also includes £1.3/2/2 million for VAT on grant maintained schools and we agreed to reconsider the figures for later years in the 1989 Survey. The agreed changes set out in the Annex include provision for VAT on non domestic construction where appropriate.

Other Bids

We agreed other increases for administration capital, publicity and a lump sum to settle your minor bids. We agreed that you would consider the distribution of the total agreed additions and let my officials have any adjustments as soon as possible.

I am copying this letter to the Prime Minister, Cecil Parkinson, Malcolm Rifkind, Peter Walker and Tom King.

Yours Ever,

JOHN MAJOR

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AGREED CHANGES TO DES PROGRAMMES

	£million		
	1989-90	1990-91	1991-92
Polytechnics etc: current	50.0	50.0	32.0
Polytechnics etc: capital	30.0	20.0	20.0
Universities	53.1	68.1	43.1
Science	75.0	94.0	94.0
IPSR	12.0	1.3	0.0
Student awards (covenants)	23.2	34.8	40.6
Student awards (other)	37.2	52.8	51.4
Maintained sector capital	36.0	36.0	36.0
Administration capital	1.0	0.6	0.4
Publicity	0.8	0.8	0.8
Running costs	5.8	6.5	6.5
Minor bids	5.0	3.0	5.0
VAT on baseline	30.0	31.7	34.5
TOTAL	359.0	399.6	364.3