



Prime Minister (2)

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DEPARTMENT OF EDUCATION AND SCIENCE

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FROM THE SECRETARY OF STATE

The Rt Hon Sir Geoffrey Howe QC MP
 Chancellor of the Exchequer
 Treasury
 Parliament Street
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27 October 1982

Dear Geoffrey,

THE CONTRACTING OUT OF PUBLIC SECTOR FUNCTIONS

Thank you for sending me a copy of your letter of 11 August to Willie Whitelaw on the scope for further contracting out of public sector functions.

I do not think that we can realistically expect to see contracting out on a major scale or at an early date for the provision of school education. Our aim is to look towards greater opportunities for parents and students alike to opt, if they wish, for the independent sector. We have already introduced the assisted places scheme to enable pupils who might otherwise not be able to do so to be educated at independent schools. Even with the present limited intake, the cost will eventually build up to £30m a year, with little by way of identifiable offsetting savings to local authorities. As you know from my speech to the Party Conference, I am also considering the role of vouchers and "open enrolment" in increasing the choice to parents between the maintained and independent sectors and within the maintained sector.

This is not to say that I rule out the contracting out of particular functions in schools. But experience so far suggests that this is unlikely to lead to a more effective use of resources in many areas. A number of local education authorities have looked at the scope for contracting out the school meals service; but this is not an attractive commercial proposition because there is an upper limit to demand confined to a small part of the day on only about half the days in the year. The unattractiveness to commercial operators is underlined by the one experiment that has gone ahead so far: an experimental one year contract has been awarded in Essex to a Colchester firm to operate the catering at Clacton County High School from this September. The tender was slightly above the Authority's estimate for their own service at the time and, in the case of a similar tender for catering at a primary school (which is not to go ahead), the lowest tender received was double the costs of the Authority's school meals service. Neville Bosworth's experience in Birmingham is similar.

We have no evidence either of local education authorities being able to gain significantly from contracting out their cleaning for schools. Croydon experimented with this but had to terminate the initial contract involving two schools because of problems with the unions. However, the experience of the experiment and a review of the possibility of contracting out all its school cleaning has enabled Croydon to bring about savings of about one-sixth (£0.3m) in its direct labour cleaning budget. This demonstrates the greater willingness of unions to change previous conditions of service and practices when faced with the alternative of contracting out. I believe that there is some scope for cutting costs and manpower and improving the quality of the school cleaning service.

I shall consider what more I can do to encourage contracting out in the local authority education service in the light of Michael Heseltine's response of 19 October to your specific request for a report on local government generally. In the process I will pay particular attention to school cleaning: the decision must be for individual authorities, but they need to be aware of the scope for savings.

The universities are already private institutions. As you know, my aim is to see these become less dependent upon the tax-payer. My officials are in touch with yours about the part which the tax system might play in this and I also await some further views from those I have approached within the universities. I hope also to put some firm proposals to you soon about loans for student maintenance - again, I fear, with associated extra short-term costs as a condition of much larger long term savings. Again, I think it is right that we should expect higher education institutions to exploit their resources to the full and to undertake consultancies for the private sector so as to increase their income. Cranfield Institute of Technology is the pace-setter here; but it is a specialised institution and does not face what is a major barrier for polytechnics and other maintained colleges, namely the legislation which restricts the trading activities of local authorities. I am looking further into this.

Finally, there are my Department's own activities. The executive tasks (such as pensions administration, preparation of statistics and the administration of postgraduate awards) have been the subject of recent Rayner scrutinies and there is little scope for contracting out except perhaps in the case of the administration of some postgraduate awards, which I am pursuing. Otherwise the Department makes use of private contractors for particular services (including office cleaning) and research and that will continue.

To sum up - and here I refer specifically to your Private Secretary's letter of 18 October - there has been no contracting out of education services since we took office and there are no plans for this year or next. Looking ahead over a much longer period, I believe that there is scope, by the different routes to which I have referred, for a substantial reduction in the extent to which the cost of education is met from public funds. The price will be some smaller short term additions. I cannot be more precise at this stage.

I am copying this letter to the Prime Minister, other members of the Cabinet, the Attorney General, the Lord Advocate, Sir Robert Armstrong and John Sparrow.

Curran

Kearney

27 OCT 1982

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