

Mr. Jones
We spoke about this.
John minuted the meeting.
AR
9/11

You have submitted the...
10/11

29/11

204/11
DEW
Ce Irish Med. Educ.
553/95

CONFIDENTIAL - POLICY AND PES

298/11

FROM: MICHAEL ANCRAM

DATE: 7 November 1995

To: Secretary of State (B&L)

1. cc B/L 10 Nov.

2. Mr. Carvill 8.11

cc PS/Secretary of State (B&L)
PS/Sir John Wheeler (DFP, B&L)
PS/Sir David Fell
Mr Carvill
Mr Semple
Mr Hill
Mr Holmes
Mr Shaw
Mr Watkins

I have some sympathy with this
prop. - tho' it fails to mention the
Irish medium road-across. Is there a
case for a note from me supporting a

INTEGRATED EDUCATION *reduction provided the*
same treatment applies to Irish schools? M. advise exp. 7.11.

1. You will recall that I minuted you in April to alert you to the escalating cost of meeting our commitments to integrated education, and the implications of this for the education capital budget. I will shortly be having a PES bilateral with John Wheeler at which I will tease out with him the financial aspects of this issue. However, I know that we face a particularly difficult Survey, which will limit the extent to which he is able to respond to legitimate needs and expectations not only in many parts of my own budgets but across Northern Ireland programmes as a whole; so I appreciate the need for realism. My concern is that the costs of our present policy on integrated education are not provided for, and are simply not containable within, the present baseline for capital expenditure in the education sector. If a higher level of expenditure is not affordable then neither is the policy.

of course not!
2. I am raising this with you now not in any way to seek to pre-empt the PES process, but to remind you of the pressures which I flagged up in April and to ensure that we do not engage in nugatory work by constructing a PES settlement

CONFIDENTIAL - POLICY AND PES

on a basis which may have policy implications which will be unacceptable to you. As ever, it is important that PES distributions should be determined by strategic policy decisions, and not vice versa.

Policy background

3. Our present policy is to respond positively to parental wishes for integrated education wherever a viable proposal presents itself. This policy is based on our view that integrated education is a desirable long-term investment in building a more united community, and it also reflects the statutory duty placed on my Department by the 1989 Education Reform Order "to encourage and facilitate the development of integrated education".

4. The integrated sector is still small in absolute terms (currently about 2% of the total school population) but that in fact represents quite rapid growth given that it has been driven solely by bottom-up parental demand. We now have 9 secondary and 19 primary schools, and firm proposals for 2 new secondary schools and 1 new primary school to open next September.

5. All but 5 of these schools have been new creations. The 1989 Order did provide a mechanism whereby existing schools could, by a ballot of parents, transform to integrated status - a mechanism very similar to the opting-out process for GM schools in England, but obviously involving an even greater change of role and status here than with opting for GM status. In practice this has been little used, perhaps because like-minded parents in a locality have found it more practicable to band together, begin in a small way, and build up rather than seek to persuade the body of parents as a whole at an existing school to transfer en masse. This is understandable, but unfortunate in several ways; and for the future I believe that one of our objectives must be to increase the number of transformation schools. But first we have to deal with the capital costs of the integrated schools which we already have.

CONFIDENTIAL - POLICY AND PES

6. The process for supporting a newly-created integrated school involves a three-way partnership between the local parents group, my Department, and the Integrated Education Trust Fund (the IEF). The group makes the proposal; my Department considers whether it will be viable (defined as attracting a minimum first year enrolment of 15 for a primary school and 60 for a secondary school with an acceptable mixture of both Catholics and Protestants) and if it achieves these enrolment levels meets the recurrent costs; and the IEF supports the initial capital outlay. It does this by offering loans to the schools, either from its own resources or by arrangement with the banks; the interest costs on these loans being met as part of the recurrent budget paid by my Department to the school. Capital grants are not payable to schools until and unless we are satisfied as to their long-term viability, which is normally clear when they have been in operation for about three years.

7. The rationale for this approach is that it allows my Department to give early day support to new schools which look promising, but without an up-front commitment of capital investment. The risk (to the initial capital investment) of the school failing is thus transferred to the IEF - which was set up for this very purpose with a combination of charitable, government and EU funding. These arrangements were made possible by the 1989 Order: before that the only way to start a new integrated school was to open as an independent school, survive unaided - and demonstrate longer term viability - over a period of several years, and then apply to become grant-aided.

8. The 1989 provisions have achieved their purpose: it is only since they were introduced that integrated education has taken off. However, although they avoid the need for government to risk its capital in new ventures until actual experience has confirmed their viability, they do mean that the new schools become entitled to capital grants once they have established their viability. The IEF has a capital base of only some £4.6 million: while it can gear this up with the aid of the banks, it cannot possibly finance the

CONFIDENTIAL - POLICY AND PES

capital needs of these schools - which are each growing in size as they develop as well as in total numbers - beyond their initial stages, so it depends on the schools receiving capital grants in order to recycle its capital; nor would it be appropriate for us to continue to pay the interest charges beyond the stage where doubts about the school's long-term prospects have been resolved.

Financial implications

9. Each new integrated school that is opened thus involves a commitment - within about a three-year time lag - to a capital grant, conditional on its establishing itself as a viable school. Of the 28 integrated schools which currently exist, 22 have now been accepted as eligible for capital costs. A total of about £23 million has been paid in respect of these schools to date or is committed in respect of schemes which are already approved and under way; a sum which I had to find from within my existing capital provision - not without difficulty, and not without adverse comment from controlled and maintained school interests who have correctly perceived that these payments have been at the expense of projects in those sectors.

10. The essence of the problem which we now face is that the costs of the expanding integrated sector are no longer containable within my existing baseline. It is no longer a question of integrated school projects just reducing what it is possible to do in other sectors: instead they threaten to supplant them entirely.

11. In the light of these pressures I have taken steps to reduce the extent of our exposure. In particular, I have reduced the standards and cost of new integrated school buildings to a minimum by insisting that only the core of any new school should be of permanent construction, and all general extensions and additional classrooms should be of temporary or semi-permanent

CONFIDENTIAL - POLICY AND PES

construction. This has of course been hotly contested by the integrated schools lobby, who point out that it is less favourable treatment than is given to new controlled and maintained schools; but I have told them that it is a necessary price to pay for the expansion of their sector. But even on this basis the unavoidable costs of providing these new schools are very substantial.

12. Across the Survey period, the additional capital costs which I face in respect of the existing integrated schools will be in the order of £24 million. The three new schools which are currently in the pipeline would, if approved, add a further £7 million. Yet the total uncommitted resource in my capital expenditure baseline for new starts is only some £32 million. In other words, there would be no capital at all available within my new starts provision for any projects in the controlled, maintained, or further education sectors over the next three years. That is clearly not a sustainable position.

13. Against this background I will be asking John Wheeler to provide a substantial increase in my capital baseline: I estimate that I would need an additional £2m/£17m/£31m across the three Survey years in order to sustain even a modest new starts programme. This would enable me to meet the integrated schools pressures and restore the general baseline to a more realistic level. I know that he will wish to do what he can for me, but I also know - as I said at the outset - that his ability to help is greatly constrained by the tightness of this year's Survey. He will have to listen to my case, weigh the competing priorities, and bring forward his proposals to you in due course. I am not asking you at this stage to take any view on these specific figures - it would clearly be wrong to do so before John Wheeler's considered views are before you. But there are some policy questions, which I believe we do have to address now so that we can determine our longer term policy stance and proceed to implement that policy once the PES position - whatever it may prove to be - is settled.

CONFIDENTIAL - POLICY AND PES

Policy Options

14. Whilst our present acute difficulties over capital costs bring this issue to a head, even if the financial position were less difficult we would have reason to ask ourselves whether our current practice represents an appropriate and sustainable way to proceed, given the surplus capacity already within the rest of the schools' estate and the inevitable opportunity costs when there are many other priority claims on finite resources. Continuation of our present policy would imply - even on modest assumptions - an expenditure of at least £7 million pa on integrated schools in a "steady state" beyond the Survey period. There are two broad options:

- (a) to retain the existing policy of responding to demand from parents, where proposals meet the statutory and other requirements we have set, and accept that as a consequence we will have to augment the DENI capital baseline substantially in the Survey period and beyond to recognise explicitly the cost implications of pursuing the policy; or
- (b) to restrict or terminate the policy for supporting any future proposals for new schools (accumulated commitments at existing schools must still of course be met) on the grounds of financial constraints.

14. A more restrictive policy might involve one or more of the following:

- * Refuse approval to development proposals on grounds of avoiding unreasonable public expenditure until the DENI capital budget is healthy enough to support reasonable numbers of both integrated and "normal" schemes; or, as a compromise, be prepared to support only primary schools and refuse approval to the more expensive secondary schools.

CONFIDENTIAL - POLICY AND PES

- * Set higher initial enrolment hurdles which would limit future development.
- * Change the legislation so that in future integrated status should be achieved only via the transformation of an existing school. Given the reluctance of parents at existing schools to pursue the transformation route (even at schools which are already mixed) it would be necessary to devise some incentives to encourage the transformation option. This measure could again be applied either to all proposals, or only to the secondary sector, where costs are much higher.

To adopt a more restrictive approach to integrated education would involve considerable presentational difficulties, in that it would be seen as going against the tide of all our efforts to build a more united and tolerant society on the foundation of the ceasefire. But it would be even harder to justify continuing with the present policy if that means that we are running up medium and long term commitments that we are not budgeting to meet.

Conclusion

15. The immediate financial pressures I will take up with John Wheeler in the first instance. Even if I were to reject the three current new proposals on grounds of cost (and they will fall to be decided by about January 1996) that would still mean that my budget would be fully committed for the next two years to integrated schools alone. The prospect of 100% of my new starts budget having to be allocated to a sector which represents only 2% of total enrolments is not a sustainable one, so I will be making a strong plea to him for some short term relief. But important as this is, it is equally important that we should be clear about our future intentions and practice in regard to any new commitments; and both issues really need to be addressed in parallel. I would therefore welcome an early discussion with you (which John Wheeler



CONFIDENTIAL - POLICY AND PES

would of course wish to join) on our future policy stance. I think we should if at all possible have our discussion before my PES bilateral with John Wheeler (due on 14 November) as your views on the policy issues ought to inform that bilateral as well as guiding me on how I am to approach the current proposals, and what signals I should now be sending to the integrated schools lobby as to our future stance.

Colin Jack

pp

MICHAEL ANCRAM

*(seen and cleared by the
Minister and signed in his
absence)*