

PO-CH/NL/0878

PART A

Alex
Lawson

PART A

SECRET
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PART A

Begin: 7/1/86 DD: 25 years
Ends: 17/11/86 *[Signature]* 5/9/95

CHANCELLOR'S 1986 PAPERS
ON EDUCATION POLICY AND
THE TEACHERS' PAY
DISPUTE

PO -CH /NL/0111A
0878

PART A

Pos A



FROM: PAUL PEGLER
DATE: 7 January 1986

MR GILHOOLY

cc: PS/Chancellor
Sir P Middleton
Mr F E R Butler
Mr Kemp
Mr Gilmore
Mr Jameson
Mr Burr
Mr Lord

*1 hour space
the CS
No team work for
(in time 122)
but
part of
paper
back!*

TEACHERS' PAY

You, Mr Butler and others discussed with the Chief Secretary on Friday 3 January, your minute of 24 December and subsequent minutes of 2 January from Mr Butler, Mr Gilmore and Mr Allan.

2 The Chief Secretary decided after a brief discussion, not to take a further initiative now on the possibility of introducing specific grant for education. Such a proposal would have no relevance to the current situation faced in the teachers dispute. The Green Paper on local government finance would contain references to specific grants which could form the basis of initiatives in the longer term. The department of education favoured specific grant for education and they could be expected to take this further after the Green Paper had been published at the end of January.

3 In a brief discussion of the situation in the teachers dispute, the Chief Secretary said that it was important to get across the message that ratepayers would have to meet the cost of any increased offer. It was generally appreciated that the government would not increase the additional £1½ billion it had offered for teachers pay etc. in ~~July~~. The Chief Secretary felt it was important that this message came through strongly at the time of the RSG settlement.

August

4 The meeting concluded that it was ^{worth} pursuing the possibility of subjecting the LEAs to legal pressures in

SECRET AND PERSONAL

order ^{to} the enforce contracts. The departments of education and employment were producing papers on the possibilities for the Prime Minister's meeting scheduled for 16 January. The Chief Secretary agreed that it would be useful to discuss these papers with officials before the Prime Minister's meeting and this office will contact those concerned in due course to arrange a suitable time.



PAUL PEGLER
Assistant ~~Private~~ Secretary

FROM: J F GILHOOLY
DATE: 13 January 1986

- 1. MR KEMP
- 2. CHANCELLOR OF THE EXCHEQUER

cc
 Chief Secretary
 Sir Peter Middleton
 Mr F E R Butler
 Mr Gilmore
 Mr Jameson
 Mr Halligan
 Mr Lord

Thanks. 4(v) SLS cover the examiners part. I have discussed with the CST. No to paper below, I SLS take a quick note on the pros & cons of various options in Y report. I am, of course, prepared to discuss this for a while. What do you think of the proposal? I am sure we can work out a way forward. I am sure we can work out a way forward. I am sure we can work out a way forward.

TEACHERS' PAY

1. We understand that Sir Keith Joseph and Mr Patten may be coming to see you and the Chief Secretary early tomorrow for an informal talk about teachers' pay before the MISC 122 meeting on Wednesday. It goes without saying that you will not wish to give any commitments to Sir Keith Joseph - Mr Rifkind's position on all this is not known.

2. As background, I attach the separate submission to the Chief Secretary about the papers for Wednesday's meeting. (also postponed)

3. We do not have any details of what Sir Keith wishes to raise with you, but presumably he will try to persuade you that the only feasible solution to the dispute is an inquiry, and that this should be discussed fully again at the Prime Minister's meeting. He will no doubt argue that an inquiry is the only way of getting the teachers back to work on a permanent basis, and of providing the foundation, by legislation or otherwise for new arrangements which would prevent similar disputes in the future.

4. You might wish to make the following points:

(i) the inquiry option was firmly ruled out at the Prime Minister's meeting on 18th December. You would have to oppose it because of the repercussions on public service pay generally, and the consequence for public expenditure.

(ii) you would be opposed to specific grants as a lever on local authorities. They would ultimately add to upward

No - see footnote

see a way forward. I am sure we can work out a way forward. I am sure we can work out a way forward.

pressures on public expenditure, and would be extremely difficult (and costly) to use as a means for influencing LEAs' attitude to their teaching force.


(iii) you appreciate the difficulties which Sir Keith sees with prescribing contracts, etc. by legislation but two of Mr Clarke's ideas would be worth pursuing further - namely clarifying LEAs' statutory duties to allow more effective use of Sir Keith's powers of direction; and giving parents better scope to take action against LEAs in the courts.

(iv) it has been your own view for some considerable time that the present arrangements for managing the teaching force are unsatisfactory, and you welcome the fact that Sir Keith's paper notes there are radical alternatives. You hope Sir Keith could agree to support you, without commitment, to a thorough look at the possibilities here.

(v) you also feel that steps to blunt the effects of the teachers' action have not been examined sufficiently.

5. Sir Keith might also sound you out on your attitude towards providing part of the £1.25 billion to help finance the 1986-87 costs of an ACAS-fathered settlement to the 1985-86 dispute. If he does, you might say that it is unlikely that such a settlement would preclude the early resumption of disruption, or would do anything towards Education Ministers' objectives on terms and conditions of service. While recognising that under those circumstances Ministers would be under considerable pressure, providing additional funds might do no more than take the financial pressures off teachers, and thus open the way for yet greater increases in local authority spending.

6. HE and LG are content.



J F GILHOOLY

P.S. I gather that your meeting with Sir Keith Joseph and MISC 122 have now been cancelled. But I have put the above forward, in case he raises it informally.

FROM: J F GILHOOLY
23 January 1986

1. MR KEMP
2. CHANCELLOR OF THE EXCHEQUER

agree. In my book
length for your prepared
approval.

eff

cc Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Mr Gilmore
Mr Jameson
Mr Halligan
Mr Lord

TEACHERS' PAY

I regret adding to the paper mountain, but overnight, notes have come from Sir Keith Joseph and Mr Rifkind (both urging an inquiry to be announced this afternoon) and from Mr Clarke giving a very encouraging situation report on ACAS.

2. The latest ACAS draft (Appendix B of Mr Clarke's note) looks not ideal, but far from disastrous. It covers a good deal of Sir Keith Joseph's terms of reference for his inquiry, except for future machinery. It puts great and public pressure on the NUT, if the two sides agree it on Friday. Our only caveat is that DES officials should abstain in the voting on it, if that is needed to avoid committing central Government to providing resources beyond the with strings £1,250 million.

3. Sir Keith Joseph's and Mr Rifkind's notes cover familiar ground. But it is worth noting that :

- Ministers could set up a Review Body direct via primary legislation if they wished. An inquiry first is unnecessary.

- Houghton (his paragraph 3) reached conclusions on both pay and conditions of service. Only the pay recommendations came to anything - a lesson to be noted.

4. Our understanding from Department of Employment officials is that

Employment Ministers are likely now to go for the ACAS route, not just because they think it is as good a way ahead as a Government-sponsored inquiry would be, with the added advantage of being much more likely to secure an end to industrial action; but also because they fear for the authority and prestige of ACAS if, things having got this far, the Government suddenly ditches them.

A handwritten signature in blue ink, appearing to be 'J F Gilhooly', with a stylized flourish at the end.

J F GILHOOLY

PERSONAL AND CONFIDENTIAL

FROM J F GILHOOLY
DATE 28 January 1986

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Mr Kemp
Mr Gilmore
Mr Jameson
Mr Halligan
Mr Lord

TEACHERS' PAY: MISC 122, TODAY, 5PM

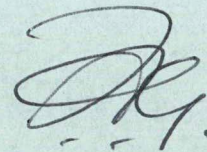
1. We have now seen Sir Keith Joseph's and Mr Rifkind's minutes. They are very much as expected (my brief of yesterday) but there are one or two glosses to add.

2. First, Sir Keith's paragraph 3(ii) says that the ACAS deal leads to an end to disruption. This is true so far as the unions signing up on the deal are concerned once they have ratified it. But it is by no means necessarily true for the NUT. They have already made it clear that they do not plan to end disruption (although they may call off strike action). And they might well seek to continue this after a formal settlement of the 1985 claim in Burnham. DES's judgement is that the settlement through the statutory Burnham machinery pushed through by the smaller unions' majority, will considerably weaken NUT members' willingness to continue disruption. And parents will find continued industrial action very difficult to understand, adding to the pressures on the NUT.

3. If nonetheless, the NUT continued with disruption, short of wrecking the ACAS agreement the only course (see paragraph 11 of my submission yesterday) is to see if pressure can be brought on the LEAs not to pay the increase to those teachers who continue disruption. But the prospects of the employers being tough enough to do that are poor. Because the settlement is determined in Burnham, by agreement between the teachers' and management panel, the DES have no means of overriding it. (The Secretary of State's ability to go to both Houses of Parliament to overturn a settlement applies only to awards reached following arbitration.)

4. Paragraphs 5(ii) and (iii) of Sir Keith's note seem to us to draw too stark a contrast, although we agree with his conclusion. So long as they handle things with proper care, his representatives' should be able to nudge the future ACAS talks at least a little closer to what the government wants, without committing Government formally to the outcome. The main point is that if the talks are successful, the Government would be under pressure to make sure they were carried through into changes in pay structure, etc., and the pressure would not be very greatly changed by whether or not the DES officials were there.

5. As expected, Mr Rifkind's minute seeks an inquiry for Scotland. The arguments against this were set out in your minute last week to the Prime Minister. Those arguments ^{may} have somewhat less force against a Scots only inquiry. But the effect now would be very likely to wreck the ACAS deal: and an inquiry for England and Wales too would then be very hard to resist.



J F GILHOOLY



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

hs

CONFIDENTIAL AND APPOINTMENTS IN CONFIDENCE

Prime Minister

Ch/A good outcome
✓
AJK
19/3

SCOTTISH TEACHERS' INQUIRY

I understand that you have had to conclude that Lord Fraser of Tullybelton should not be invited to chair the inquiry.

I have been considering further whether Sir Peter Main would be an appropriate Chairman. When we discussed names earlier this week you indicated that you had, in principle, no objection to Sir Peter but were uneasy about appointing him because none of us at the meeting knew him personally. I have spoken to George Younger who appointed Sir Peter to the Scottish Development Agency at the end of last year. George knows Sir Peter and is in no doubt about his soundness and support for Government policy. He feels that we could appoint him with confidence. As you know, Keith has said that he would be very content to see him appointed and regards him as eminently suitable for an England and Wales inquiry later.

I would very much like to announce the names of the Chairman and members of the Committee before the Easter Recess and I should therefore be grateful to have your agreement to approaching Sir Peter and the preferred candidates for membership immediately.

I am copying this minute to Keith Joseph, George Younger,
John MacGregor and to Sir Robert Armstrong.

MR

MR

19 March 1986

PRIME MINISTER

HOW TO GET BETTER SCHOOLS

*Admission -
 for school -
 no school of
 low other children
 do it.*

What is wrong

1. i. England has never had a high quality mass-education system: we have no centralised tradition as has France: no long-established regional culture like West Germany: no high expectations of school standards like the Swiss, the Dutch and the Scandinavians. ~~We believe that~~ too many children of every level of ability are ill-prepared for life as adults, citizens, and at work.
 - ii. HMI are always reporting the low expectations that teachers here have of their pupils. Parents in all too many cases seem content or indifferent in the face of under- even grossly under-achieving by their children. But many parents are gravely dissatisfied with the standards of many of our maintained schools.
 - iii. Only Direct Grant schools and grammar schools offered escape from mediocrity to bright children in the majority of homes - and Labour abolished the former and strangled the latter, now further endangered by falling rolls.
 - iv. So millions of children are trapped in schools that are under no internal pressure to serve them well. It is to such pressure - by way of competition - that escape routes, and to go further, voucher or credit advocates, look.
2. The problem has been made worse by the teachers dispute. Added to this, there is a widespread feeling that -
 - a. the Government is not "in control" of our education system;
 - b. parents are not in control either;

- c. we are not spending enough money on education;
- d. a creaking education system is undermining our present and future international competitiveness.

All four of these perceptions are valid.

- e. the Conservative Government and Party do not care about the maintained schools.

This is not valid, but it is believed.

3. Taken together these perceptions add up to a major political problem. The importance of education has risen in the opinion polls. We are not thought to be handling the issue well. It seems to be a potent recruiting sergeant for the SDP and Liberal Parties.

4. I do not believe that it will be sufficient to put forward some interesting proposals on education in our next manifesto. We should aim to show before the autumn that we have got a grip on education and have positive proposals for transforming it. A coherent set of proposals will neither be credible nor will it work unless we are prepared to invest more money in education. Action could be taken on some of the proposals set out below before the end of the Summer term. But in any event we should aim to launch a sweeping reform package in a statement before the Party conference, perhaps in the shape of a White Paper with green edges.

Objectives

5. We advanced in "Better Schools" a widely applauded series of ambitions but our means of delivering them are woefully inadequate. We must take steps to secure for central government the same kind of financial leverage on the education system that it enjoyed when the 1944 Education Act was drafted. But this is not enough. We need to give still more power and influence to parents. We must have - particularly in some of our cities - alternative schools to those provided by local education

authorities. Escape routes from bad LEA schools should be available to even the poorest parents of children of all abilities, but at the same time we need the power to push local education authorities into improving quality in their schools. We need to be able to manage a better paid, better trained, better motivated teaching force much more vigorously. We also want industry more involved - and permanently too - in our education system.

6. For years we have talked about education as a partnership. We have argued that education can best be delivered by collaboration between central and local government, the teaching profession and parents. This still seems a sensible approach - and the one most likely to secure results - but it bears very little relationship to what we have today. The taxpayer and central government, who pay for much of the service, and the parents and children, who are the customers, have less clout than the producers - the local education authorities and the teachers. We should redress the balance. If we want an effective national policy for education then central government must have more control. If we want satisfied parents and children then parents must have more influence and independence.

7. Given the powers here proposed (paras 18-20) we could cut the waste by some LEAs and ensure that existing and extra money is spent effectively - in education terms. If we had the right structure for education, and the right balance between the partners, these policies might be sufficient. But it is also right to consider radical options for improving the education system.

Radical Options

8. In identifying radical options, one or more of which we might adopt, I have thought it necessary to accept four constraints:

- a. full-time education 5-16 should be compulsory;

- Handwritten red scribbles and arrows on the left margin.*
- b. such education (plus at least education at school until 19) should be available free of charge;
 - c. an effort should be made to secure minimum standards in what is provided;
 - d. we should bear in mind the morale of the maintained system since, except under two of the options (and even then for several years), it will be that system which will still provide for the vast majority of children.

9. I attach five technical papers examining in outline five options - some compatible and some incompatible with others - each of which to a greater or lesser extent reduces the part played by local education authorities in schooling:-

Option 1 Transferring responsibility for all education functions now provided by LEAs to directly elected single-purpose authorities.

Option 2 Transferring to the centre the responsibility for all LEA functions - in other words setting up a nationalised education service.

Option 3 Converting maintained schools into autonomous bodies competing for parental custom via a system of "credits" - this education credit system is another name for a voucher scheme.

Option 4 Creating a new category of school maintained by the Secretary of State and catering either for all abilities or for groups with particular needs. These would be called Government Maintained (GM) schools: they would be a new form of direct grant schools. Under such a scheme new schools could be set up by groups of parents, as well as by existing or new charities and by entrepreneurs. Some of these institutions might have a technological emphasis.

Option 5. Extending means tested assistance to pupils at independent schools by expanding the Assisted Places Scheme.

Options 1. (Single-purpose LEAs) and 2. (Nationalisation)

10. I am against options 1 (single-purpose LEAs) and 2 (a nationalised education service). Option 1 would destabilise the structure of local government, but the structural change would not in itself do much for quality in schools. Option 2 would be a huge and complex change and damage local government. It is as likely as not that once the Government became the education service's sole paymaster and principal employer it would prove more vulnerable to pressure to spend, and that the harmonisation of spending - as opposed to standards - expected of a centralised service would level up rather than down. I remain opposed to a nationalised education service because it centralises power and bureaucracy to a degree which runs counter to our political philosophy, and would expose government to blame on every detail of education policy and delivery.

*for Mr F. Mann
rebuttal*

Option 3. A "Credits" System

- 11. i. Replacing LEA-maintained schools by an education credit scheme would embrace only LEA schooling and not the other LEA functions.

- ii. The essence of this option is that schools would depend entirely on credits paid to them through the choices of parent-customers. (There is no difference of substance between (a) a credit system under which the parents' decision to send a child to a school automatically entitles the school to a stipulated sum - at present the school's income depends on the decision of the LEA - and (b) a voucher system under which the parent gives the school a piece of paper (the voucher) when the child is admitted and the school is entitled to the value of the voucher.)

- iii. Those who argue for such a system believe that most parents wish their children to flourish: they believe that, given a choice - which can never be absolute but can be wider than now - within the state system parents would seek effective schooling and that supply would qualitatively satisfy demand.

- iv. They accept that some parents would be indifferent or would make bad choices. But they say correctly that the habit of choice would strengthen dignity and responsibility - and that anyway there are plenty of bad schools in the state system, despite all our paternalism. They argue that we should give parents the chance - which most do not see that they have now - to secure better schooling than exists in many state schools for their children. But it is possible that, by taking the children of concerned parents out of bad schools, those schools would get even worse than they are now. Credits would thus be for better and for worse: much improvement in some schools; but much schooling continuing to be indifferent as now; and some made worse.

- v. Long, complex and controversial legislation would be needed. A network of state agencies would be required for a host of functions: to define and make credit payments: to settle capital grants: to monitor standards: to cope with rejected pupils: to cope with truants: to provide special schools: to provide for under-5s: to manage the obsequies of failing credit schools: to monitor the 1944 religious settlement, and other functions as well.

- vi. No credit system has been established anywhere. So we naturally in 1983 envisaged that any national credit scheme would be preceded by pilot experiments. We would therefore have had up to 5 years of drafting, legislating and preparing for the Appointed Day:

followed by a 5-year period for a voluntary (if any takers came forward) pilot scheme.

- vii. Even an experiment would need complex legislation. Success would probably only be achieved by creating untypically favourable conditions - and failure could well be due to nationally organised opposition frustrating a local venture. To move without a pilot stage direct to an imposed system would be a disproportionate educational and political risk. Yet an experiment would be no good - it's all or nothing.
- viii. There would certainly be hostility from LEAs (Tory included): most parents could be misled and scared: our own party would be split: and nearly all teacher unions would be passionately opposed and union officials would intensify member demoralisation just when our other initiatives call for enthusiasm and cooperation.
- ix. Moreover only a minority of parents would be eager for the scope being brought. Another large minority is broadly content, even complacent, about standards. Most teachers think that more money for them and for schools is all that is necessary. Vouchers would be unlikely to touch the complacency that is rife in our worst schools.
- x. It so happens that Arthur Selden, that credits crusader, has just published a denunciation of my timidity. The book - "The Riddle of the Voucher" - contains many valuable perceptions. In particular it sketches differing forms of vouchers to meet various problems. But the book errs, it seems to me, on three main counts:

- (a) it assumes some charging:
and we so far have turned our backs on
this;

- (b) it underestimates the hostility;

and (c) it presupposes, despite such hostility and without evidence, an abundance of school initiators and managers.

12. Despite my original interest in its possibilities, I believe it is now clear that the prospects of a practicable and affordable credit system are dim, simply because of the three constraints that have to be imposed on the operation of the market - compulsory schooling, free schooling and minimum standards of quality. These were the constraints which we felt bound to accept when we looked at vouchers in the last Parliament. I am therefore driven to the conclusion that we must now drop credits. We cannot run them simultaneously with measures to revitalise an LEA-maintained system.

Option 4. GM Schools

13. i. This option opens up exciting new possibilities. It would widen choice. The schools could be selective or not. We would require them to provide the curriculum we want which for all schools will of course have a technical component. Some might specially emphasise the technical element within a broad curriculum.
- ii. All GM schools will be required to satisfy minimum standards and to make no charge. They would be financed by central government at standard rates. To give ourselves the best chance of a good crop of GM schools we should try to use every variant of this flexible concept. We would look to the Livery Companies and existing charities. We should certainly try to interest business sponsors in setting up new charities.
- iii. One idea would be a business-sponsored trust which would set up a dozen GM secondary schools in the inner cities, each one with a strong emphasis on the technical element of a broad curriculum.

- iv. GM schools might also be set up by groups of parents provided that they could form themselves into a trust capable of accepting enduring responsibility for the school, including compliance with curriculum, quality and no charge - as opposed to voluntary gift - conditions. This might appeal particularly to religious groups or in villages or the inner cities.
- v. The best prospect for establishing GM schools on a substantial scale at modest extra cost probably lies in transferring a substantial number of aided schools to a new semi-autonomous status. It would be necessary to persuade the churches and other voluntary bodies of the advantages.
- vi. But aided schools in the cities at least tend to be more popular than county schools in terms of perceived standards and discipline, and changing the status of some aided schools might do less to serve our objectives, particularly in the cities, than changing the status of county schools. The latter would require the Secretary of State, after public consultation, to require a LEA to transfer a county school into the GM school category with or without compensation. It is an open question whether we shall find enough groups of people (parent groups and charities - existing and new) with the will, capacity and long life needed to assume the duties of ownership, financial liability and the responsibilities of employing all the staff, particularly in those areas where we would most want to see them established. Potential volunteers might be put off by the political risk of a change of government and the hostility of LEAs and teacher unions.
- vii. Legislation would be needed for most variants of this option.

viii. Despite the difficulties, my conclusion is that we should put GM schools firmly on our agenda and should move to establish as many such schools as we can - the number is likely to be limited initially.

Option 5. Extending the Assisted Places Scheme (APS)

14. i. We could either seek to keep the APS on a scholarship basis limited to the secondary phase, and so perhaps rather more than double its planned size and cost. Or we could lower the standard set for participating secondary schools and extend the scheme to primary schools, which might quadruple the size and cost. The limits are set by the number of satisfactory, willing-to-participate independent schools.
- ii. Under the latter approach, which would require legislation, the APS would cease to be a scholarship scheme, bring much more of the independent sector within the ambit of state financial support, and to a much greater extent subsidise pupils who would otherwise have been educated at private expense (the dead weight effect). There would be little prospect of off-setting savings in the LEA maintained sector.
- iii. Expansion of either magnitude would increase consumer choice and responsibility and the opportunity to benefit from education. But it would cost money, some of which would not give good value because of the dead weight effect.
- iv. In logic it might be argued that we should not expand the APS if we are to launch GM schools because in some areas the APS might take away pupils whom we should like to see in the GM institutions. But I wish to see a pluralist approach to our problems and believe that there is scope for both initiatives. I therefore recommend extending the APS retaining its scholarship

character. We might stop short of the maximum potential for expansion (doubling its size). Independent schools will also benefit from the new tax treatment of gifts to charity.

The LEA Sector

15. GM schools and an expanded APS add to parental choice and reduce the LEA's quasi-monopoly. But even within a greater pluralism we are left with a huge preponderance of LEA schools and with the problem of making LEA schools better serve the needs of children, parents and the nation. The more good LEA schools parents have to choose from, the greater their choice. We should advance simultaneously on three fronts. The possibilities are outlined in Technical Paper No 6.

16. First, much solid work - most of it unappreciated by parents and employers - is in train and still to be done to complete our existing programme:

- i. injecting vigour and rigour into the selection and training of teachers - the "Teaching Quality" White Paper programme is now in progress.
- ii. shaping by consent a national curriculum (not actual syllabuses): this should be broad, balanced, relevant, and above all differentiated (so that every pupil can be stretched to his or her full potential). This has been accepted in principle but to be applied by all LEAs and schools it requires much more effort and better teachers. We are ready, building on the pilot stage, to expand TVEI rapidly if we can find the money. Even in primary schools, science and Craft Design and Technology are growing fast.
- iii. introducing the new GCSE this September, requiring higher standards, differentiated, and with more emphasis on understanding and the application of skills and knowledge.

*Go to
the down
comment - ?*

- iv. linking teacher appraisal with much more effective in-service training; we are taking powers to secure these aims in our current Education Bill.
- v. piloting records of achievement for all school leavers: everybody in the education service is in favour.
- vi. setting up new governing bodies stripped of LEA majorities with more parent-governors and more accountable to parents; also in our Current Bill.

17. Second, we need to take strong and sustained action to secure the delivery of our "Teaching Quality" policies. We are successfully making the selection and training of teachers more rigorous and practical through CATE. We are making provision for the systematic development of appraisal and in-service training through the Education Bill. But these measures will only yield their full benefits when vigorously implemented by the LEA employers in association with a new contract-linked definition of teachers' duties and an appropriate pay structure with better differentials. There is no realistic prospect of that being negotiated into place. We need a statutory review body for pay and conditions of service.

18. Third, we shall not achieve our objectives for education without much greater leverage on local government. The Green Paper, "Paying for Local Government" holds out the prospect of increased specific grants bearing directly upon areas of expenditure crucial to the delivery of standards. But we shall have to go further. The Green Paper's theme of local accountability is a recipe for the status quo. We also need to ensure accountability to the wider requirements of national policy. That means a degree of centralisation not hitherto contemplated.

19. It is essential to move to a separate education grant regime incorporating a substantial element of specific grant. What is involved is a fundamental change in the Government's relationship with local education authorities. We would be able to

- lay down clearly what we expect of LEAs in terms of performance and the management of resources by relating exchequer grant to national objectives and policies
- monitor and secure the delivery of national priorities by varying the amount of specific grant to be paid from within a fixed total of grant according to LEA performance
- use specific grant to set conditions for performance and target resources to secure greater cost-effectiveness and value for money.
- require that value for money is addressed in every area of expenditure on the basis of a range of performance indicators and output measures

20. There is no half-way house. We need the combination of a separate education block grant and increased specific grant powers to secure the necessary grip over LEA management of the system. A block grant for education by itself would leave local government free to ignore our priorities. More specific grant would help to target resources towards the cost-effective delivery of national objectives but, set within the Green Paper regime for local government finance, it will have only limited effect. We need to be bolder and more far-reaching if a system based on local government is to deliver what we want.

What will this mean?

21. The result of these changes will mean new and better escape routes from LEA schools, and less need to use them. We shall have taken a grip on LEAs and the teacher unions - and they won't like it - to give parents a better deal. Quite new prospects will open up for moving our current policies along much faster and for new initiatives. For example

- (1) A properly managed teacher force - well motivated teachers of the right quality sensibly deployed

throughout the school system. Two key issues are the supply of teachers for the shortage subjects such as mathematics, physics and CDT, and the selection and training of and leadership provided by head teachers. We look to pay differentials, appraisal and in-service training as our main instruments: but we are considering numerous small contributions in addition to help relieve the main long standing skill shortages.

- That's
not the
point!*
- (2) The development and use of performance indicators. Examination results do not measure "value added" at school because no-one knows with what intelligence, aptitude and home background (except by area) any particular child starts. But just because we shall not get accurate indicators for all types of performance is no reason for not trying to establish new ones. Indicators will be hard to design but I intend to try. The new financial mechanism will enable us to get LEAs and schools to make much more effective use of whatever performance indicators there are in order to raise standards.
 - (3) Bright children. Many comprehensive schools hold the more able back. We need in particular to make special provision for able older primary pupils - remedial classes in reverse - and will be able to do so with specific grant under the new mechanism.
 - (4) An "Open School". This would supplement by carefully designed distance-learning packages crucial parts of the curriculum (such as maths where we are nationally weak and other subjects). Motivation is the crux. We shall need great care in forming and delivering the packages if we are to succeed, but the ability to target funds and attach conditions will help.

Check!

22. My proposals cost more money. Within the framework suggested it will be money well spent, targeted to where it can do most good and give most value. More radical options would cost more;

less radical change would not deliver our political objectives.
We shall have to find extra resources

- to deliver "Better Schools": our White Paper made it clear that, even if all LEAs were to secure the savings from improved efficiency open to them, our policies would still require some increase in real levels of expenditure per pupil. Our friends in prudent, non-wasteful LEAs are having to cut essential elements. We must make a start in 1987-88.
- to settle teachers' pay on a basis that will endure and on conditions that secure our objectives
- to expand the assisted places scheme (up to £70m depending upon the limits that we set on expansion) and to make special provision for able children within maintained schools (£10-20m)
- to establish an initial tranche of Government Maintained schools.

23. There will also be extra central government manpower costs to implement the programme that I am proposing in this minute. These might amount to about 50 AEC grades and 50 HMI in addition to what the DES needs now to do its present job. If we were to proceed to establish a sizeable number of GM schools beyond an initial tranche, further additional staff would be required.

My proposals

24. I conclude that:

- a. We should move from block grant financing to an education grant with a substantial element of specific grant in order to give central government adequate leverage over the education system. With this leverage we could implement our existing policies more quickly

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and be able to mount new initiatives for the curriculum and teaching quality (paras 18-20);

- b. We should use the education grant particularly to "police" the new teachers' contract. Our aim should be legislation to impose the outcome of the work of a statutory review body on pay and what pay is for. The role of teacher unions as negotiating bodies would be severely curtailed. They would be obliged to become once again professional organisations (para 17);
- c. We should introduce new direct grant schools under the name of GM (Government Maintained) schools (para 13), including the possibility of these being run by parent groups. The more successful and popular the schools became, the greater the potential for parental leverage over LEA-maintained schools. As a first step we should move to establish very soon a national foundation with a mix of government and industrial funds charged with the task of setting up straight away ten or a dozen GM secondary schools in the city centres of our older industrial conurbations. We should aim for a couple in London and the remainder in our provincial cities. Each school would have a local governing body. Each would aim to provide a model curriculum embodying the lessons we have learnt from TVEI. We would not sacrifice breadth before 16 but for those who stayed on after that age quality vocational provision and courses should be available. Each of these new institutions should aim to work closely with local industry. I have no doubt that the creation of schools like these would cause howls of outrage from LEAs, though they would have little to grumble about provided the schools were not financed at their expense or at a significantly higher per capita level of funding. I have equally little doubt that parental interest in these schools would bring pressure to bear on the existing primary schools and secondary schools in the maintained sector to raise their standards;

- d. We should expand the Assisted Places Scheme while retaining its scholarship character (para 14). This would be complemented in the maintained sector by our intention to make special provision for able children within maintained schools - the "remedial classes in reverse" (para 21(3)). And we should exploit distance learning techniques (para 21(4)).
- e. We should publish before the autumn a White Paper with green edges setting out the above proposals, reporting progress on the national foundation GM school initiative (c. above) and explaining fully our reasons for dropping credits;
- f. The additional powers for parents provided in our Education Bill and the additional options made available to them by these new proposals should be supplemented by much greater information for parents. We should provide every parent with a booklet, setting out clearly parental duties, responsibilities and rights and setting out too what a good primary school or a good secondary school should be like. In such a booklet, we would naturally want to include not only our views on the curriculum but also on the treatment of politically controversial subjects within it. This would supplement any other measures we may be minded to take on political indoctrination.

Action

25. The programme I have outlined, taken with what we are already doing on teacher training, the curriculum, examinations, appraisal, in-service training, records of achievement and parental involvement in schools, would represent the most radical educational change since 1944. It would seize the initiative. It would cost more money and some manpower. It would get us, for a change, value for money. It would enable us to take some action before the next election, provided the resources were available, and to promise more on the back of legislation in a new

Parliament. It would be open to us to choose how much we needed to do straight away in order to make our promises for future action both more possible and more credible.

26. Whatever we decide, I hope we will not let things drift. Time is not on our side and indecision is not our friend. I would welcome the establishment of a small group of colleagues to carry these ideas forward as a matter of urgency after Easter.* I would also welcome some public indication that we intend to accord education a higher priority in our plans including those for public expenditure.

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of what?*

**Ch/ if this goes ahead,
perhaps CST shd
represent you: there is
a major PX element in this*

K.J.

AWK

KJ

26 March 1986

As agreed I am sending copies of this minute to the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster only at this stage.

TECHNICAL PAPER NO 1

101

Single-purpose Local Education Authorities

1. This paper outlines some of the main implications of reorganising local government to create a system of single-purpose local education authorities (SPLEAs) which would be directly elected and would be separate from the organisational arrangements for other local government services.

Functions

2. It would seem appropriate to allocate to the SPLEAs all the educational functions assigned to local government. That approach would offer the best prospect of making their functions sufficiently important to attract elected members and officers of good calibre. The approach would also avoid the difficulties of separating functions which are largely interrelated: for example to make the SPLEAs responsible only for the schools would make much more difficult the effective planning and delivery of 16-19 education.

Areas

3. SPLEAs would need to be large enough to attract elected members and officers of good calibre, and to be able to discharge cost-effectively and economically the full range of functions which would fall to them. Where there are now shire counties, the SPLEAs might normally conform to the areas of the existing LEAs; but elsewhere the SPLEAs might in many cases be formed by amalgamating the areas of two or more metropolitan districts or outer London boroughs.

Financial arrangements

4. A national system of authorities responsible only for education would emphasise the fact that the English education system is a national one "under the control and

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direction of the Secretary of State for Education and Science" (the words of Section 1 of the 1944 Education Act).

It seems appropriate that to the extent that SPLEAs are financed by the Government, that finance should come to them from the Secretary of State. The finance arrangements might take the following form:

- (1) there would be an education block grant for which the Secretary of State would be responsible to Parliament and on which he would negotiate directly with the SPLEAs.
- (2) Education block grant would be based on a separate education needs assessment. Under present arrangements there exist soundly based and generally robust GREs. The Green Paper proposals, which take care of the problem of resource equalisation, are in principle compatible with a wholly separate education needs grant.
- (3) There would be an increased power of specific grant - amounting to about 10-15 per cent of total local authority expenditure on education. Such a power would be designed to secure effective steering of the system by the Secretary of State.
- (4) SPLEAs would also raise revenue locally. It would be necessary to consider splitting the proposed community charge between SPLEAs and other local authorities, as it would be split between tiers of local authorities. The Secretary of State might have a power similar to selective rate-capping.
- (5) SPLEA capital expenditure would be separately controlled by the Secretary of State, perhaps on a gross expenditure basis.

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5. The negotiations between the Secretary of State and the SPLEAs would be directed towards effectively changing local priorities on education spending: to that extent it is likely that they would increasingly be directed towards individual SPLEAs.

6. The financial regime outlined in paras 4-5 would be intended to serve more effectively the Secretary of State's policies for improving the quality of education and the standards attained by pupils and students; to reduce unjustifiable diversity in a national service; and to secure value for money in the expenditure of every SPLEA.

Electoral Considerations

7. The present electoral cycle is:

- election of the whole Council every 4 years for shire counties, London boroughs, the new ILEA and some shire districts.
- election by thirds three years out of 4 for metropolitan districts and most shire districts.

The timing of elections for SPLEAs would need to be decided in the light of the following considerations:

- (1) Whether it is desirable that all SPLEAs should have the same arrangements.
- (2) Whether it is desirable to hold SPLEA elections at the same time as elections for other local authorities in the area of the SPLEA, having regard to cost (elections held at different dates cost more); the likely effect on turn-out, and whether it is desirable that the elections should focus purely on educational issues.

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Effects on local government

8. To remove education functions from the outer London boroughs and the metropolitan districts would leave these local authorities in the present position of the inner London boroughs, whose viability as local authorities is not currently in question. But to remove education functions from the shire counties would leave these with functions which account for only about 30 per cent of their present expenditure. This would call in question their viability as local authorities, having regard to the resultant distribution of functions between shire counties and shire districts.

9. The creation of SPLEAs would substantially reduce the capacity of local government to determine policy and expenditure priorities between services at the local level. The separate authorities would pursue expenditure policies in isolation from each other. But the demands which each made on the ratepayers would be visible and ratepayers could discriminate in their response as electors.

10. Cooperation between local services eg education and personal social services is in principle easier to secure within an authority than between authorities; but effective inter-authority cooperation is also possible.

Central and Local Governments Costs

11. SPLEAs would **have** to establish for themselves the common **administration** services (eg financial, legal, personnel etc) provided to **education** within existing multi-purpose authorities. At **present**, administration costs of the order of £250m a year **are recharged** to education departments in respect of **the costs** of common services. The creation of SPLEAs involves **diseconomies** of scale in relation to such expenditure. It is not possible to estimate precisely what proportion of the expenditure would be additional

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but it might amount to 50 per cent or £125m a year. To the extent that some existing LEA areas were merged to form SPLEAs, there would be countervailing savings. Separate electoral arrangements would also entail extra costs.

12. There would be some additions to central government manpower. The administration of a separate education grant regime would require an additional 10-20 posts depending upon the role within it exercised by specific grant. Further manpower might be needed if the grant negotiations were brought to bear increasingly upon individual local authorities.

Legislation and timing

13. Legislation would be required to establish SPLEAs and to deal with the transition from LEAs to SPLEAs. The transition - the preparations for new electoral arrangements, for the transfer of property and staff, and for a smooth hand-over - would probably take 1-2 years after enactment.

A nationalised education service

1. This paper considers in broad outline what might be involved if the education service were managed and financed centrally. It is assumed that the pattern of the educational institutions now maintained (or assisted) by LEAs - in all its variety - would initially remain as it is now; and that, in particular, there would continue to be county, aided, special agreement, controlled, and special schools, as well as maintained and assisted establishments of further and higher education, all of them retaining their present status, form of government, and functions, subject to the changes in school government and functions to be enacted by the Education Bill 1986. The large change which would take place is:

- (1) the transfer from elected local government to "the centre" of all the functions now carried out by local education authorities in relation to the institutions they maintain or assist; and the related functions which they now carry out in relation to pupils, students and parents.
- (2) the transfer to "the centre" of all responsibility for financing the public education service.

Organisation

2. In principle the resultant responsibilities of "the centre" could be discharged in one of three ways:

- (1) by the Secretary of State and his civil servants.
- (2) By a single Central Agency, appointed by the Secretary of State and answerable to him, on the basis of functions formally assigned by legislation or by the Secretary of State.

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- (3) By a number of Area Agencies on the NHS model, appointed by the Secretary of State and answerable to him, on the basis of functions formally assigned by legislation or by the Secretary of State.

3. The choice between these 3 Options would depend on the weight given to several considerations. In particular:

- (1) Option 2 (1) would involve the Secretary of State (and his officials) directly with the management of every aspect of the education service. It would maximise the matters in respect of which he is accountable to Parliament. It would facilitate consistency of administration in a national service.
- (2) Option 2 (2) would remove the Secretary of State from the detailed tasks of managing the service. Consistency of administration would be facilitated. But the Central Agency's accountability to the customers of the service would not be easy to establish. There would be a limited possibility of conflict between the Secretary of State and his agent, insofar as the latter possessed entrenched powers.
- (3) Option 2 (3) would also remove the Secretary of State from the detailed management of the service. Accountability to the customers might be partially secured by appointing to each Area Agency representatives of local government. But consistency of administration would be harder to achieve; and the NHS experience suggests a strong possibility of conflict between particular Area Agencies and the Secretary of State.

4. Under either option 2(1) or (2) the functions of the centre would need to be discharged by means of administrative

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devolution. Many permutations could be envisaged. Under Option 2 (1) the DES would be responsible for policy and finance at national level; and a tier of say 30 area offices (each with sub-offices as appropriate) each of which would discharge the Secretary of State's functions in relation to the institutions in its area in accordance with guidelines on policy and a budget from the DES. Any responsibilities delegated by the DES to its area could be discharged with reference to the DES as the occasion demanded.

5. Under Option 2 (2), the Central Agency would receive a budget from the Secretary of State, and perhaps policy and financial guidelines, but would then administer the service on the basis of its formally delegated powers. It would be the Agency not the DES which would arrange for budgetary and administrative devolution through area or local offices.

6. Option 2 (3) entails a number of Area Agencies. If these were sufficiently numerous, administrative devolution would have been achieved at the same time. Each Area Agency would be given a budget and perhaps policy guidelines by the Secretary of State.

7. It might be appropriate in certain cases to allow an appeal to the Secretary of State against the decision of his agent by an aggrieved educational institution, parent or student. Similarly under Option 2 (1) there might be a formal arrangement in certain cases for appeal to a specially constituted tribunal. Under Option 2 (1), there would be a strong case for giving a right of appeal against the Secretary of State's decisions to the governing bodies of voluntary schools, because the Secretary of State would have assumed the discharge of LEA functions in respect of which these governing bodies can now appeal to the Secretary of State. In either case an appeal to the Courts would be possible on a point of law.

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8. The elimination of the locally elected element from the education service would strengthen the case for obliging the Secretary of State, or the Central Agency, to consult - perhaps through formally constituted advisory bodies - at local level on important issues arising out of the application of the central policy, and to consider proposals for development and innovation suited to local circumstances. The local authorities that would remain might be represented on such advisory bodies.

Finance

9. The education service would receive all public finance from the central government, either directly from the Secretary of State or via his agent(s). There would be a corresponding shift from local to national taxation. The total public expenditure on education would be determined solely by the Government. It would have to be distributed among the individual institutions, and for other specific purposes, largely on the basis of formulae designed to meet need. A starting point for distribution formulae could be the existing education GRE which is based largely on identifiable client groups and is already fairly robust. But the present methodology would require refinement to take account of variations in local circumstances to which LEAs can at present accommodate, and would need to be developed to cover aspects of education where local expenditure is at present discretionary eg provision for under-5s, adult education, the youth service and discretionary student awards. It is for consideration how far it would be possible and desirable to delegate financial responsibility to individual institutions.

Management of institutions

10. The governing bodies of schools and colleges would continue to have their present responsibilities for managing their institutions (as modified by the Education Bill 1986). With the disappearance of local education authorities it

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would be necessary to consider how far the new paymaster (Secretary of State or his agent) should be represented on governing bodies. In the absence of such representation the governing bodies would often consist only of representative of people (eg parents, teachers, coopted members) with no financial stake in the institution. There would be a strong case for giving the paymaster the right to appoint a proportion of governors but the larger the proportion, the greater the practical difficulties of finding enough suitable appointees. It is perhaps an open question whether such appointments would be made on a political basis. It might also be desirable to introduce a representative local element by allowing the local authority to nominate some of the governors. However these issues were resolved, the Secretary of State (or his agent) would need the information, powers and resources to ensure that institutions spent their allocated central funds properly, effectively and in accordance with the Government's educational policies.

Premises

11. For those institutions where the LEA now owns or leases the premises, the Secretary of State (or his agent) would take over the freehold or leasehold, and would assume the attendant responsibilities for capital and current expenditure. Where the Secretary of State now pays grant towards capital or external repairs eg for aided schools, the arrangements could continue. It is for consideration whether the initial transfer of the interest in the premises should involve a payment by the transferee either in respect of the value of the premises or as compensation for past capital expenditure.

Staff

12. The Secretary of State (or his agent) would become the employer of all staff (other than those not now employed by the LEA eg staff of aided schools). In the capacity

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of employer the Secretary of State (or his agent) would appoint and dismiss all such staff, subject to the existing arrangements, as modified by the Education Bill 1986, for involving governing bodies, head teachers and principals. The Secretary of State (or his agent) would exercise the staff management functions of the employer (staff deployment, development, training). He would also assume the employer's responsibility for settling the pay and conditions of service of the staff, on the basis of national arrangements for negotiation etc determined either on a statutory or a voluntary basis. The employer's responsibilities assumed by the Secretary of State (or his agent) would extend beyond the teachers to the arrangements for non-teaching staff in respect of which the Secretary of State now has no statutory interest or experience.

Pattern of provision

13. At present the pattern and character of institutional provision for any area is the product of a process over time whereby the LEA and to a limited extent voluntary bodies (particularly the churches) have made proposals which the Secretary of State has been able to accept. That process has involved public consultation and the consideration of objections. The elimination of the LEA would make it necessary to consider, on the assumption that changes in the pattern and character of institutions would continue to be the subject of public consultation, how far the Secretary of State (or his agent) should be the proposer of change and to the extent that he becomes the proposer, whether he should have the power, without appeal, to determine the issue.

14. The enforcement of compulsory schooling would fall on the Secretary of State (or his agent) and with it the determination of the admission arrangements (including the arrangements for parental appeal against non-admission)

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for those schools (normally those other than aided schools) for which the LEA now has that responsibility. He (or his agent) would also assume the LEA's responsibility for securing appropriate provision for pupils with unusually marked special needs. All these functions would bring the Secretary of State (or his agent) into a day-to-day relationship with parents.

Curriculum

15. It is now Government policy to promulgate objectives for the school curriculum, and to require each LEA to formulate its own curricular policy, so that both the Secretary of State and LEAs discharge their functions in the light of what would effectively be a national school curriculum (but not going as far as national school syllabuses). If the Secretary of State (or his agent) were to own most of the premises of the institutions, employ most of the staff, provide all the public finance, operate an inspection system, and play a more initiatory role in relation to the pattern and character of provision, it would be natural that all these responsibilities should be discharged in the interest of a national curriculum, centrally determined and reviewed after consultation with governors, teaching staff and the customers of the service; and it would be for consideration whether such a curriculum would increasingly find expression in national syllabuses.

Effect on Local Government

16. The loss of education functions would leave the metropolitan districts and outer London boroughs with the same functions as the inner London boroughs whose viability is not currently in question. It is however questionable whether the shire counties, after losing a service which accounts for about 70% of their expenditure, could be regarded as viable local authorities, having

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regard also to the functions of the shire districts. The ILEA would be abolished. The loss of education functions would substantially reduce the importance of local government in the affairs of the nation.

Resources

17. The Government's control over total public expenditure on education would rest on the fact that it alone supplied public finance for education and actually or effectively employed the great majority of the staff of the education service. It is a matter of judgment how such centralised control would affect the expenditure total. The factors affecting that judgment include political considerations, the scope for increased efficiency and value for money in the use of human and material resources (including teaching staff) and the dynamics of an overtly national system which encourages consistency of provision in all areas.

18. As regards administrative manpower, the current position is summarised below.

LEA (in full-time equivalents)	Advisers and Inspectors	2,100
	School Meals Organisers	650
	Youth Organisations	1,900
	EWOs	3,000
	Administration and support	18,000
	Recharged Administration	20,000
DES		2,400

19. It is difficult to offer any precise estimates of the manpower consequences of centralisation. A number of factors are relevant:

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- (1) There is little doubt that LEAs do not at present employ sufficient advisers and inspectors to enable them adequately to monitor and improve the performance of their institutions. To discharge these responsibilities adequately the Secretary of State (or his agent) might need some 4,000 advisers and inspectors (as against the present complement of 500 HMI and 2,100 local advisers and inspectors).
- (2) The loss of education functions would create diseconomies of scale for the administrative services of local authorities. This addition might be at least offset by economies of scale in providing the same services for education through a much smaller number of area organisations under the Secretary of State or under a Central Agency, or a much smaller number of Area Agencies.
- (3) A centralised education system would need many more DES staff than the present non-HMI complement of the DES (ca 1,700). For example the staff of the DHSS concerned with the NHS (the total expenditure of which is of the order of magnitude of the education service) is about 4,000.

Legislation and Timing

20. The transfer to the centre of LEA functions would require very substantial and complex legislation which would also have to deal with transitional arrangements and the possibility of obstruction from local government and professional interests. The necessary arrangements for, among other things, the transfer of staff and property, and the creation of a new area organisation, might mean that the new regime could not come into operation for 1-2 years after enactment.

TECHNICAL PAPER NO 39
10**AN EDUCATION CREDIT SYSTEM**

1. This note considers in outline what would be involved in creating and running an entirely new category of schools, which would take the place of those currently maintained by local education authorities. Within specified constraints, the schools would be independent of local and central government, operating as autonomous cost centres. Their main source of finance would be "credits" i.e. grants from public funds calculated on the basis of the number of registered pupils. They would not be allowed to charge fees.

The new structure of the public education service

2. Full-time education would be compulsory from 5 to 16. All county and voluntary schools, primary and secondary alike, would convert to education credit system (ECS) status. Nursery and special schools and LEA-maintained higher and further education institutions would remain outside the scheme - probably, but not necessarily, continuing to be LEA-maintained. The existing category of independent schools would remain, except to the extent that they joined the ECS sector by agreement. The Assisted Places Scheme would be unaffected, and changes to the existing arrangements for independent schools would not be ruled out.

ECS schools

3. Since ECS schools would be independent of the LEA, they would need to have a separate legal existence. Since they would be financed almost wholly from public funds, it would seem appropriate to give them charitable trusts and probably also make them companies limited by guarantee, which in normal circumstances would limit the liability

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of the trustees/members to a nominal sum. There are complications in trust and company law which would need detailed consideration, particularly as they apply to voluntary schools. Although ECS schools would have the independence, and permanence, of charitable status, they would not only be funded by a public authority but would have to be subject to a certain amount of regulation and supervision by such an authority, so that for example reasonable value for money is achieved. Paras 30-34 below summarise the main functions of the public authority in relation to ECS schools and discuss whether that authority should be the LEA or the central government. In the following paragraphs the authority will be referred to as the "State Agency".

Governing boards

4. The trustees/members of each ECS school would be the governing board of the school. It is for consideration on what principles the governing boards should be constituted. Since the schools would be financed from public funds, it would seem appropriate that the composition of the governing body should be subject to some statutory limitation, and some control by the State Agency. It might be reasonable to allow the Agency to appoint a proportion of the governors, and it might be necessary in many cases for all the governors to be so appointed initially. Subsequent and perhaps some initial appointments could be largely by co-option and also, if desired, by elections on the part of parents and teachers. The composition of governing boards could vary according to the status of the replaced school eg foundation governors could be in the majority on the boards of former aided schools, and be represented on those of former controlled schools. In general, it might not be easy to find suitable and willing persons for every governing board. During the period of transition, the existing governors of a replaced maintained school could, if willing, form the first board; if they were unwilling,

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temporary replacements might need to be appointed by the State Agency.

5. Memoranda and Articles of Association would set out the detailed constitution, powers and responsibilities of the governing boards. The Articles would vest responsibility in the boards for all aspects of running the schools; property matters; employment of staff; the curriculum; admission of pupils; and so on.

Financial mechanism

6. Each ECS school would be funded through "credits". The value of a credit would be determined each year on a standard scale, with variations according to the size and locality of the school and the age of the pupils. This determination would be rough and ready; it would be necessary to make extensive refinements to the GRE methodology, and appeal arrangements might be needed. The number of credits for a school would be determined by the number of pupils on roll at a stated date, perhaps with adjustments where rolls were rising or falling rapidly.

7. Governing boards would be expected to finance all or nearly all the school's current expenditure (and perhaps a 15 per cent element of any capital expenditure - qv para 11) from their credit income. The revenue budget would cover:

- a. teaching and non-teaching staff (including any call on occasional eg supply or peripatetic teachers, advisory services, school doctors or psychologists from whatever source; plus costs of in-service training, redundancies etc);
- b. books, equipment and other materials;

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- c. in-school administration;
- d. maintenance and internal repairs;
- e. rents, rates and services;
- f. any subsidy of midday meals and home-to-school transport beyond legal minima.

8. Governing boards would be free to supplement their income from voluntary contributions and (limited) commercial borrowing. They would be required to make proper arrangements for accounting and audit.

9. To minimise transitional difficulties and act as a buffer against unavoidable lumpy expenditure, eg on major repairs or staff restructuring, schools would need to be given a working balance on starting up. This would be a once-off, but clearly large, addition to public expenditure.

Capital assets

10. It would not be possible to devise a single, appropriate model for the governing boards' interest in the school premises. This varies considerably in the case of LEA-maintained schools, and is much complicated in many instances by trust provisions. Where there was not already a body of foundation governors who owned the premises (as generally applies in the case of voluntary schools), it is for consideration whether the freehold should be transferred to the governing board or whether the board should be allowed to rent or lease the premises (in the first instance usually from the local authority). Transferring freeholds would seem to require compensation payments to existing owners, which would probably have to be met by the Government, would probably run to billions of pounds, and would complicate matters if an ECS school

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closed for any reason. Unless the freeholders are to be put at a disadvantage, leasing or renting should be at economic rates: but this could put a substantial financial burden on many governing boards.

11. Capital projects for established, and perhaps for new, ESC schools would probably be feasible only with the help of a grant from the State Agency (subject to reversion of net proceeds to the Agency in the event of closure). Since many ECS schools would find it hard to raise money, the grant might have to be at a rate of 100% rather than the 85% now payable to aided schools. Dealing with applications for grants (including settling priorities) from up to 25,000 schools would be a large administrative undertaking. It would give the State Agency an important means of controlling the total resources put into the new system, and their distribution within it.

Changes in provision

12. ECS schools would start at their existing size, character and age range, but it is implicit in the system that these should change over time in response to parental wishes. Some changes, for example in the school's age range or character (selective, single sex etc) could affect the total amount of grant payable via credits, could involve grants for capital projects, and could affect the opportunities of parents in the area to secure the desired education for their children. These considerations argue in favour of retaining arrangements on the lines of those currently in force under the Education Act 1980 whereby certain changes relating to an ECS school would be subject to the approval of the Secretary of State with opportunities for objection by other parties affected (eg other ECS schools).

13. There are similar arguments for such public procedures in relation to the setting up of new ECS schools and to

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closure of schools which were failing (eg because of unpopularity or demographic changes). It is for consideration whether in the case of possible closures transitional assistance should be afforded, by way of a top-up grant, to protect the interests of those children remaining at the school; or whether alternatively arrangements should be made in such circumstances for temporary takeover by the State Agency either to restore an ailing school to health or to nurse it decently to its death. In the case of a temporary take-over by the Agency, or if the school closed, all rights in the property would remain with the trust or body previously responsible for the school.

Teaching and other staff

14. ECS governing boards would employ all the staff employed at the school. Since the schools would be publicly funded acceptable standards of teaching and other services would be required in them. It is for consideration whether this would continue to make it necessary that all teachers should be qualified in accordance with criteria laid down by the Secretary of State; the answer to this question would affect the arrangements now made for teacher training. Governing boards would probably have to accept some obligation to admit student and probationary teachers.

15. New arrangements would be needed (national or school by school) for determining the pay of teachers and other staff. The existing Remuneration of Teachers Act 1965 applies only to the remuneration paid to teachers by local education authorities. The main alternatives would be either to leave this as a matter for negotiation between the employers and the employees, who might or might not set up nation-wide negotiating arrangements, or to establish new national arrangements for determining teachers' pay, either on a voluntary or on a statutory basis.

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16. Transitional difficulties could arise if staff at LEA-maintained schools were unwilling to transfer to the new ECS schools. Claims for constructive dismissal could be hard to avoid, and the ECS schools could not be expected to bear the costs. Some form of national compensation arrangements might need to be devised, and specially financed.

17. The teachers superannuation scheme could continue to operate broadly as at present, but the governing boards would become responsible for the employers' contributions. Premature retirement and redundancy would become matters for the governing boards, who would be responsible for making all the necessary arrangements and meeting the costs. Mismanaged redundancies or dismissals could prove costly to the boards. Redundancies in the event of school closure could almost certainly not be financed by the governing board.

Admissions

18. Broadly speaking, ECS schools would have complete autonomy as to the number of children they admitted and the basis on which they admitted them (subject to the likely need for public consultation and the Secretary of State's approval to changes of character and size). Existing requirements in legislation as to the publication of information on admissions arrangements etc would remain in broadly their present form.

19. It would be desirable for some sort of clearing house to handle applications in a given neighbourhood, and for the reason set out in para 20 schools' participation in this would need to be compulsory. Normally it would no longer be possible for parents to appeal against a particular school's refusal to admit their child.

Securing compulsory education

20. The State Agency would need to be charged with ensuring that all children of compulsory school age received full-time

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education. The Agency would need to be able to obtain from the clearing houses (see para 19) complete information on all eligible children in their area, so that it could identify those who were not in school, either because their parents were withholding them or because all ECS schools in the area had refused them admission. In the latter case the Agency would need to be able to require the admission of the child in a suitable ECS school with spare capacity. It would be desirable for the school to have a right of appeal.

21. Where there was an overall shortfall of ECS places in the locality, the Agency would be required to look initially to schools in neighbouring localities (with implications for transport, and possibly boarding, costs that would need to be considered), and these might have a right of appeal. In other cases it would be necessary for the Agency either to take up places in independent schools or to provide schools of its own for unplaceable children.

Standards

22. In the interest of securing minimum standards, ECS schools would be required to comply with minimum standards as to premises laid down by the State Agency, certainly for reasons of health and safety and probably to permit minimum standards of educational quality. Since ECS schools would be publicly funded, it seems inescapable that the State Agency would also lay down minimum standards of quality. It is for consideration at what level these should be set and who would set them. It is notoriously difficult to establish criteria for educational output as opposed to input (quality of the curriculum, teaching, equipment etc). Any minimum quality requirements would need to be compatible with giving each governing board responsibility for the school's curriculum, but the State Agency might have power to secure a minimum of certain types of provision eg for minority foreign language teaching.

23. ECS schools could be subject to requirements in respect

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of religious education on the lines now applying to LEA-maintained schools, but the LEA's responsibility in relation to the agreed syllabus might need to be transferred to another agency (see para 33 below).

24. The State Agency would need to monitor and enforce minimum standards. In the event of default, it would need to be possible in the last resort to close a school (subject presumably to a right of appeal) and secure suitable alternative arrangements for its pupils. The Agency might also be responsible for informing governing boards about good practice and new developments in school education.

Provision for under fives

25. ECS schools could in principle be free to admit under fives, provided they did so free of charge and that the quality of provision for those over 5 was not prejudiced. They could receive credit-funding for them (on scale rates) if they had specific approval for such admissions from the State Agency.

26. Provision for under fives other than in ECS schools could in principle remain as a residual responsibility of LEAs - but see para 33 below. Since such provision would have to be in free-standing nursery schools, it would be relatively more expensive than an under-fives place in an ECS school.

16-19s

27. Current legislation requires LEAs to make provision for full-time education free of charge, either in schools or colleges, to all those aged 16-19 who want it. ECS schools would be permitted to admit 16-19 year olds. They might also be allowed to cater exclusively for those over 16, possibly including part-timers and those aged 19 or over. Any provision made by ECS schools for 16-19 year olds would

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attract credits. Alternative provision would be available at maintained colleges catering exclusively for those over 16. The two sectors would compete for custom. How far they should, and could, and the effect on public expenditure and value for money for such expenditure requires further exploration.

Special education

28. The admission of children with special needs to ECS schools involving supplementary payments in respect of special provision by the school would need to be subject to controls on the part of the State Agency. It would be necessary to examine in detail how best to reconcile value for public money with the educational needs of the children in question and the financial viability of ECS schools. It might be necessary to give the Agency power to require admission to, and special provision by, the school, subject to a right of appeal.

29. The State Agency would provide, or to buy from the independent sector, places for those children for whom integration in ECS schools was inappropriate.

The State Agency

30. The preceding paragraphs have identified many functions relating to school education - and further examination would doubtless identify others - which could not be performed by the governing boards of ECS schools, and would fall to the State Agency. It is necessary to decide whether this Agency's functions should, at least in large part, be performed by local government or whether they should be performed centrally. In considering this issue it is helpful to set out the functions involved. They are in principle either financial or regulatory. The main financial functions are:

- (1) Determination of the values of credits for all circumstances, including special payments for children with special needs, and grants for

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start-up costs.

- (2) Administration of credit payments.
- (3) Supervision of financial propriety in ECS schools.
- (4) Rescue or closure of failing ECS schools.
- (5) Grants for capital expenditure by ESC schools.

31. The main regulatory functions to be performed by the State Agency are:

- (1) Approval of new, or changes to existing, ESC schools.
- (2) Appointment of (some or all) governors of ECS schools.
- (3) Securing attendance by all children of compulsory age, including the provision of schools as a last resort and of transport to schools.
- (4) Determination and enforcement of minimum standards at ECS schools.
- (5) Provision of special schools (or purchase of places at independent schools).

32. It seems desirable to establish arrangements enabling governing boards to appeal against certain decisions of the State Agency.

33. It would be convenient to entrust the LEAs with most of the financial and regulatory functions, with appeals

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from governing boards to the Secretary of State; though certain functions, eg the determination of the value of credits and capital grants would have to lie wholly or mainly with the Secretary of State. But it is questionable whether politically hostile LEAs could in practice be trusted conscientiously to discharge functions which give ample scope for obstructing or wrecking aspects of the ECS scheme. This consideration points to giving all financial and regulatory functions to the Secretary of State (with appeal, if desired, to independent tribunals) or to an agency appointed by the Secretary of State (with any appeal to the Secretary of State).

34. If the second approach in para 33 is followed (and perhaps even if it is not) it becomes questionable whether the remaining educational functions now vested in local authorities should remain with them or be assigned elsewhere. The most important such functions are:

- (1) Provision of education for under-5s.
- (2) Provision of further and higher education, adult education and the youth service.
- (3) Teacher training.

Resources

35. It is difficult to judge whether an ECS system, once it is fully established, is likely to involve more or less public expenditure than the existing system of LEA-maintained schools. An ECS system of schools would be more fragmented, and less systematically managed, than the present system.

It is uncertain whether the dynamic of the system would tend towards smaller, less cost-effective schools or towards larger, more cost-effective ones. Unit expenditure per pupil would be highly visible, as would differences in

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it. It seems inevitable that the transition to the ECS system would be expensive: some extra costs eg for start-up funds (para 9) and for premises (para 10--11) can be identified now. Experience suggests that the frictional problems of a change of this magnitude can be overcome only by the lubrication of additional money. If the central government were to be the State Agency, then public finance for the scheme would presumably come from central taxation only..

36. The effects on total public service manpower are difficult to judge. It seems likely that there would be increases in central government manpower to offset decreases in local authority manpower and that a rather different mix of staff categories would be needed eg more emphasis on inspectors of educational quality and financial propriety and competence.

Legislation and timing

37. The creation of a radically different school system would require long, complex and highly controversial legislation, designed not only to replace much of existing education law but also to ensure a smooth transition and to prevent hostile LEAs or other from frustrating the change. Several years would be required for full implementation after the legislation has been enacted. It would probably take a whole Parliament to put the scheme into full operation, and more time would be needed before it was soundly and securely established.

Making county and controlled schools (more) like aided schools

38. It has been suggested that it would be possible to move in the direction of an education credit system by legislation designed to give to county and controlled schools some or all of the distinguishing features of aided schools. The main such features are that the governing body:

- (1) owns the premises;
- (2) employs all staff at the school, subject to a right of veto by the LEA over the appointment and dismissal of particular staff (subject to certain minor exceptions), and on the basis of a complement determined by the LEA;
- (3) is responsible for external repairs and maintenance (with the help of a grant from the Secretary of State);
- (4) in the case of aided secondary schools, controls the curriculum, though the exercise of this power may be affected by the LEA's overall policy;
- (5) determines pupil admissions, under arrangements agreed with the LEA;
- (6) is so composed as to be dominated by the voluntary body which brought the school into being.

39. The responsibilities and powers outlined in para 38 are a necessary part of that degree of independence enjoyed by aided schools which enables them to preserve their distinctive, usually denominational, tradition

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and ethos. The governing body is an agency of the voluntary body which guards that tradition and ethos, and which has a permanence like that of a LEA, but quite unlike the largely transient character which the governing body of a county or controlled school will have under the Education Bill 1986. It would not be appropriate to entrust, on a permanent and not a merely delegated basis, an aided school's responsibilities for employing the staff, external repairs, the curriculum and admissions to a governing body which neither had the permanence derived from being the agent of a charitable foundation nor possessed the stake in the school represented by the ownership of the premises.

40. It seems, therefore, that if county and controlled schools were to be given the distinctive features of aided schools, there would be little prospect that they would achieve a character, tradition and ethos which was different from that now intended for them by the LEA unless they achieved more or less the full status of aided schools both as regards the composition of their governing bodies and as regards their responsibilities. If that happened, the LEA would be responsible for maintaining schools which (apart from special schools) did not owe their existence to the LEA. It would however be only these schools in respect of which the LEA could exercise its function of securing sufficient and efficient education for all pupils in its area.

41. This new situation would introduce a new tension into the relationship between the LEA and the schools it maintained. The LEA would be dealing with a large number of governing bodies, each concerned only with its own schools and equipped with powers eg in relation to staffing, the curriculum and admissions which would enable it to pursue that concern with relatively little constraint from the LEA. In that situation it would

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be more difficult than at present for the LEA to discharge its functions. It could hardly manage to best effect a teaching force it did not employ, or easily ensure that all pupils found a place, preferably on the basis of parental choice, when each school was responsible for its own admissions. Nor could the LEA readily give effect to a consistent curricular policy in support of its distribution of funds between schools.

42. Indeed in this situation of tension the LEA would be liable to make undue use of its remaining powers eg its control over the staff complement, its veto over appointments and dismissals, and its responsibility for agreeing admission arrangements. In many cases the governing body would be at the financial mercy of the LEA, whether in respect of external repairs or otherwise, in a way which would negate the objectives of giving all schools aided status. To avoid these instabilities and conflicts, it would seem necessary to restrict the LEA's freedom to determine the staff complement and settle the finance for each school, eg by requiring it to adopt a formula for financial support determined by the Secretary of State.

43. Accordingly, once the power of the LEA over county and controlled schools is reduced so that it ceases to own the premises of the former and to employ the staff in both, and has very limited power in relation to the curriculum and admissions in both, the need for stability and the effective management of resources would probably make it necessary to give more autonomy to all LEA-maintained schools than is now enjoyed by aided schools. The schools would be more like ECS schools than like aided schools. The resultant system would have most of the principal features of an education credit system.

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TECHNICAL PAPER NO 4**GOVERNMENT MAINTAINED SCHOOLS**

1. This paper considers what would be involved in the creation of a substantial new category of schools - Government maintained (GM) schools - which would co-exist with the present local authority - maintained and independent sectors. They would be financed by the Secretary of State; provide education free of charge to all their pupils; would be privately owned; and would be semi-autonomous, in that their independence of action would be subject to some control by the Secretary of State. They would cover both the primary and secondary age ranges. Since GM schools would be maintained by the Secretary of State, he would presumably require them to achieve a standard at least corresponding to that of a comparable satisfactory LEA school and in line with his policies for LEA schools set out in "Better Schools".

Scale of the scheme

2. There are currently some 26,000 schools (other than special schools) in England (see Table A). To give GM schools a significant presence in the system, a preliminary objective might be to establish 500 of them - about 400 primary and 100 secondary. In principle, GM schools might either be drawn from the existing stock of local authority-maintained (LEA) or independent schools, or be entirely new foundations.

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TABLE A: Schools in England

	Primary	Secondary	Total
County	12,800	3,500	16,300
Controlled	3,000	200	3,200
Aided	3,900	650	4,550
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All LEA schools	19,700	4,350	24,050
Independent	1,400	900	2,300
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Total schools	21,100	5,250	26,350
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Notes

1. The number of LEA schools is falling gradually in response to declining pupil numbers. The number of independent schools stays broadly constant, but a score or so of them close each year, and a similar number of new ones open.
2. Independent schools often take pupils across the primary/secondary divide, and the numbers catering for each range are therefore only approximate.

Character of GM schools

3. A GM school might typically have charitable status, and be run by a governing body constituted and incorporated under Articles of Government. The majority of governors might be appointed by the foundation or other interest which owns and controls the premises. There would be scope for elected parents and teacher governors, if desired. The powers of the governing body might in many ways be

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similar to those of the governing body of an aided school. Thus the governors would be responsible for the premises and external repairs, would control the curriculum and admissions, and would employ the staff. But, contrary to what now happens at aided schools, the maintaining authority would not determine the staff complement or be responsible for internal repairs and equipment. All current expenditure would fall to be met by the governors, with the help of a grant from the Secretary of State calculated on the basis of the number of registered pupils (though like LEA schools they could receive donations from parents or others which were strictly voluntary). It would be for consideration how far the Secretary of State gave financial assistance towards capital expenditure: if this was at the rate of 85% for all projects (as is now the practice for aided schools), this would be a big (but possibly expensive) inducement to existing independent schools or new foundations to seek GM status.

Finance

4. The financial relationship between the Secretary of State and the governors of a GM school would require much further consideration. In particular:

- (1) It would be necessary to devise consistent arrangements for determining the value of the grant per pupil, taking account of variations in such matters as the age of pupils and the size and location of schools. The GRE methodology may provide a starting point but would need refinement.
- (2) The Secretary of State would need to be able to satisfy himself that his grant was properly administered.
- (3) It would be necessary to establish the limits of the Secretary of State's financial responsibility in relation to a particular GM school.

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- (4) It might be appropriate to establish machinery to settle appeals by the governing body against the Secretary of State's financial decisions.

Curriculum

5. It is axiomatic that the Secretary of State should apply to schools which he maintains the policies for raising standards which he wants LEAs to apply to those schools which they maintain, and should therefore seek to secure in GM schools the curriculum and the teaching quality envisaged in "Better Schools". This suggests that teachers in GM schools should be adequately trained ie that they should be required to have QT status although this point might be further considered; that their qualifications and experience should adequately match their teaching task; and that the curriculum, although under the control of the governors, should comply with the Secretary of State's policy for the curriculum. It is also for consideration whether the Secretary of State should be associated, formally or informally, with appointments to key posts. It does not seem necessary to require the pay and conditions of service of teachers at GM schools to be subject to national agreements made in respect of LEA schools. But the Secretary of State might wish to apply to schools which he maintains requirements for eg teacher appraisal or in-service training which he laid down for LEA-maintained schools. It would be open to the Secretary of State to cease to pay grant if a GM school failed to reach standards acceptable to him in relation to the curriculum and teaching quality.

6. The Secretary of State's judgment on whether educational standards at a school (including relevant standards in such matters as accommodation and conduct) were acceptable would presumably depend heavily on the advice of HMI, based on regular inspection of the school. Further consideration is needed on how best to reconcile, in relation to schools in which the Secretary of State has a strong, direct interest,

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the policy of publishing HMI reports, the need for HMI to give confidential advice to the Secretary of State, and the independence of HMI.

Admissions

7. It is for consideration whether parents should have the same right to appeal against non-admission of their child to a GM school of their choice as they have in relation to non-admission to a LEA school of their choice.

Creation of GM schools

8. The creation of new schools, or the transformation of a school of one type into a school of another, affects the pattern of schools in the area and therefore the duty of the LEA to secure the provision of sufficient and efficient schools. Since GM schools would be financed from public funds, it seems appropriate that anyone who wished to establish a GM school (whether as a new foundation or via a change of status for an existing independent or maintained school) should be required to publish a proposal; and that the proposal should then be the subject of public consultation, in which interested parties (including the LEA) could take part. Such a consultation (including the consideration of objections) might precede a decision of the Secretary of State to maintain (and probably also to cease to maintain or to change the character of) a GM school, under procedures similar to those which now govern and would presumably continue to govern changes in the pattern of LEA-maintained schools. For example the Secretary of State's approval might be required before it was possible to establish a GM school with a specified character or admission scheme or to change the character and admission scheme of an existing GM school.

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9. If an existing voluntary school wished to acquire GM status, a formal proposal to that effect might be published by the governing body by virtue of its ownership of the premises, under the consultation procedures envisaged in para 8. If the proposal was approved, it might be appropriate to require the governors to compensate the LEA for capital expenditure it had incurred on the school eg on the cost of extensions in the case of a controlled school. But in the case of a county school there is no voluntary body with a stake in the school (reflected in the presence of foundation governors on the governing body). It is the LEA who own or lease the premises. It is difficult to envisage how anyone other than the ILEA itself could be allowed to propose GM status for a county school. If the LEA made such a proposal, it would presumably be because someone had come forward who had the means to acquire the LEA's interest in the premises of the school and to accept responsibility for managing the school. In such circumstances, the new GM school would be a new foundation which happened to make use of school premises which the LEA no longer required for a county school. A controlled school could become a GM school only if the Foundation governors wanted such a change of status and could persuade the governing body to propose it.

10. Paras 8 and 9 assume that whoever owned or leased an existing school could not be compelled to transfer it to GM status. It would be possible to empower the Secretary of State, if he considered that someone other than the owner or leaseholder of a school ("the promoter") would be willing and able to run it as a GM school, to publish a proposal to transfer the interest in the school to the promoter, and after a consultation process in which the owner (or leaseholder) could object to the proposal, to transfer the interest in the school to the promoter. Such a drastic power might require a right of appeal for the owner (the leaseholder). It is for consideration whether the power should be limited to county schools, on the grounds

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that a compulsory transfer of interest from one public agency to another is more defensible than if it is imposed on a private person or body. There could be a strong case for compensating the LEA for the loss of its interest in the premises, and it is for consideration whether the Secretary of State should be able or required to assist the promoter with the cost of such compensation.

Spread of GM schools

11. It is difficult to judge how many GM schools might be established in, say, the first 5 years. Much would depend on how attractive the financial arrangements were.

(1) Entirely new foundations might be promoted either by charitable or voluntary bodies or entrepreneurs. The first two categories might include bodies already providing schools (for example certain city livery companies) or new trusts: such trusts might be formed by:

- i. business interests with a concern for education;
- ii. by religious bodies;
- iii. or by groups of parents dissatisfied with the maintained schools in their area.

All those wishing to set up GM schools as new foundations are likely to be conscious of the political risks, and hesitant about operating in areas - such as the inner cities - where the LEA and perhaps the teachers would be hostile, particularly if the enterprise involved the compulsory transfer of a county school to GM status. Entirely new foundations are unlikely to be numerous unless the financial conditions of GM status were very favourable, and involved, for example, generous assistance with capital and start-up costs.

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- (2) Existing successful independent schools represent a relatively small reservoir. Most of them would be reluctant to exchange their autonomy for a degree of Government control over their provision and income. Less successful independent schools would probably not be likely to reach and maintain the standard required for GM schools.
- (3) For existing voluntary schools - a substantial reservoir - the transfer to GM status would represent an increase in autonomy for the governing body, even if the new paymaster were significantly less generous - and the reverse might be the case. For an aided school, the change would increase the independence of the governing body in relation to the paymaster. For example, the paymaster would no longer control the complement of the school, nor would the governing body necessarily have to be bound by agreements on pay and conditions negotiated for LEA-maintained staff. For controlled schools the change would additionally mean that, for example, the governing body became the employer of the staff and determined the admission arrangements.

12. The cost to public funds of creating GM schools from LEA schools is likely to be less than if they were created from existing or new independent schools. In the former case the bulk of the cost of maintaining the school would be transferred from the LEA to the Secretary of State, though the extra administrative cost to the Secretary of State would probably not be offset by countervailing LEA savings; and a GM school might come to enrol pupils who would otherwise have gone to an independent school. But the cost of maintaining a GM school which had been an independent school would be a net addition to public expenditure insofar as the pupils would otherwise have been educated at private expense. The cost of maintaining a newly founded GM school

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is unlikely to be offset by LEA savings, either because the pupils would have been educated at private expense or because the LEA's savings from not educating them would be marginal and be secured, if at all, only partly and over time.

13. The considerations in paras 11 and 12 suggest that the best prospect of establishing GM schools on a voluntary basis might be to seek to draw them mainly from existing LEA schools, while not excluding the possibility of establishing a few from existing independent schools and new foundations. Initially the best prospect might perhaps lie in transfer from the large reservoir of aided schools. Nearly all of these are denominational and the attitudes of the Church of England and the Roman Catholic Church would be crucial, though this would not in all cases determine the decisions of governing bodies. This attitude could not be established without consultation. The prospect of establishing many GM schools through the compulsory transfer of county schools to GM status seems doubtful, since even very generous financial inducements to new or existing charities and entrepreneurs may not appear to them to offset the risks.

Position of Secretary of State

14. By assuming responsibility for maintaining a category of schools the Secretary of State would become involved in detail in part of the publicly maintained sector of schools, alongside LEAs, in a way and on a scale which are unprecedented. The Department would have to learn how to discharge direct responsibilities in relation to individual schools, and to discharge them in addition to and in combination with the functions which derive from the Secretary of State's more general responsibilities for the education service.

Resources

15. It is difficult to offer estimates of cost until certain

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assumptions have been settled, in particular whether GM schools should be sought mainly from existing LEA-maintained schools (and from which class of schools within this category) or from existing independent schools or new foundations.

16. It seems inevitable that additional central Government manpower would be required:

- (1) to establish, manage and administer the grant system and the attendant functions which fall on the GM schools' paymaster.
- (2) To inspect and monitor the educational quality of GM schools.

Depending on the regime governing (1) and (2), these additional functions might call for something like 150 extra staff, if 500 GM schools were established. There are unlikely to be significant off-setting savings in local government, because these would be too scattered and marginal.

Legislation

17. Primary legislation would probably not be necessary to enable the Secretary of State to pay grants to GM schools, using existing regulation-making powers. But given the political risk of participating in a scheme involving Government support for independent schools, it is likely to encourage take-up if the scheme, like the Assisted Places Scheme were founded on new primary legislation. Such legislation would be required if public consultation arrangements (paras 8 and 9 above) or a right of appeal by governing bodies or parents (paras 4 and 7 above) or compulsory transfer of county schools to GM status (para 10 above) were incorporated in the scheme.

EXTENSION OF THE ASSISTED PLACES SCHEME

1. This paper considers the practicability and costs of extending the Assisted Places Scheme (APS):
 - i. on its existing basis (ie a scholarship scheme limited to secondary age pupils):
 - ii. to a wider range of secondary age pupils;
 - iii. to primary age pupils.

The existing scheme

2. The APS offers means-tested assistance with fees to a set quota of pupils at selected independent schools. There are at present 226 schools in the scheme, and by the time it has built up to its full planned extent in 1987, it will be assisting some 35,000 pupils in the 11-18 range, at a cost of about £50 million a year. About 10% of the places are for boarders, but assistance with fees excludes the cost of boarding. APS schools are required to admit at least 60% of their quota from maintained schools and currently nearly 70% of all places are filled by pupils previously at maintained schools.

3. The scheme is governed by Sections 17 and 18 of the Education Act 1980 and subordinate Regulations. None of these specify that the scheme should be restricted to "scholarship-quality" pupils, although it has been made clear in Parliament that this is the broad intention. The scholarship character of the scheme is secured by the criteria under which schools are selected to participate. All must offer a broad curriculum and have a strong sixth form, so that the school can cater for the needs and preferences of almost any high-ability assisted pupils. Schools admitted to the scheme are entrusted with the selection of their

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7. The maximum practicable expansion on the present basis therefore seems to be from the present planned 35,000 pupils to some 80,000 pupils at an extra cost of about £70 million pa. The expanded pupil numbers would be equivalent to about 3 per cent of secondary pupils in maintained schools. The extra numbers drawn from the maintained sector are unlikely to have a substantial impact on the viability of individual maintained schools.

More general extension for the secondary phase

8. A relaxation of the present criteria for selecting schools would bring further schools into scope. The APS would then cease to be a scholarship scheme. As a result the new lower minimum criteria might not be easy to determine and apply.

9. In general, it is unlikely that secondary schools with less than 200 pupils could offer an adequate standard of education for a wide ability range at a reasonably economic cost. 600 independent schools in England catering for secondary age pupils have more than 200 pupils. On the basis of paragraphs 6-7 above, some 265 of these would already be in the APS. It is difficult to estimate how many of the remaining 350 or so schools would meet the new lower criteria for selection, or be willing to join, or whether they would be ready, on average, to accept a quota of 50 per cent, or indeed more, of their intake. These schools are generally smaller than the present APS schools. About 100 of them are likely to be ineligible because they specialise for foreign nationals, pupils with special needs etc, and many of the remainder are unlikely to be able to meet the criteria. The new criteria might however encourage the establishment of new independent schools for the purpose of joining the APS.

10. Taking all these uncertainties into consideration, the lowering of selection criteria might eventually bring 25,000-50,000 extra pupils into the APS. The extra cost

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own assisted pupils, subject to the quota of places and the prescribed income test.

Expansion on existing basis

4. There are two routes by which the scheme could be expanded:

- i. increasing the pupil quotas of existing participating schools, and
- ii. bringing in new schools.

5. At present an average of about 25 to 30 per cent of the intake of participating schools is taken up by assisted places. Some schools take a considerably lower proportion and are believed unlikely to want to go higher; others take a considerably higher proportion, and some might be prepared to increase it. The higher the proportion, the more schools depend on the scheme. Given the known attitudes of participating schools, the highest level to which the average quota could probably be raised is about 50 per cent of intake. This would eventually mean a further 25,000-35,000 pupils (once the new intakes had worked their way through the schools), at an extra cost of some £35-50 million a year.

6. Only a limited number of independent schools satisfy the stringent criteria for admission to the APS. Most of these are already in the APS, and a number of the remainder have previously declined to seek to join. It is estimated that some 40 schools remain which might satisfy the criteria and be willing to join. If the average number of assisted pupils at these schools were also to reach 50 per cent of intakes, a further 12,500 places might eventually be added, at an extra cost of some £18 million a year.

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- assuming that the means test and parental income profiles remained unchanged - would be about £35-70 million a year.

Extension to primary age pupils

11. If it were extended to the primary age range, the APS could hardly retain its scholarship character. The criteria for selecting schools could not relate to public examination courses and would have to be much broader. Formulating and applying them would not be easy if selection were to be consistent and on the basis of reasonable quality. It is possible that the reservoir of eligible schools will prove to correspond fairly closely to membership of the Incorporated Association of Preparatory Schools. There are about 450 schools in England with this status. Many of these cater solely or mainly for boarding pupils, and would be unlikely (subject to paragraph 15 below) to be in a position to offer many assisted places. Since schools for younger pupils are more easily established than schools for older ones, the extension of the APS to the primary phase is likely to prompt the establishment of some new schools for the purpose of joining it. It is also likely that a proportion of preparatory schools would not wish to join. It is perhaps reasonable to suggest that 200-250 schools would be brought into the scheme.

12. These schools tend to be smaller than those in the secondary age range. Assuming an average of, say, 150 pupils per school and an average quota of 50% of the intake, there would eventually be some 17,000 assisted places for the primary phase. The cost of these might be of the order of £20 million a year.

13. The present legislation (which excludes primary age pupils from the scheme - see paragraph 16 below) requires the Secretary of State to have regard to the desirability of a balance between regions and between the sexes in selecting schools to join. The present supply of

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preparatory school places is heavily skewed towards certain regions and towards boys. In the short term at least, an extension of the APS into the primary phase would almost inevitably favour those regions where preparatory schools are plentiful, and would likewise favour boys. In the longer term the existence of the APS is likely to go some way to reducing these imbalances by prompting the provision of new places by new schools and extensions or changes to existing ones.

14. Since most pupils at preparatory schools are admitted after the age of 5, a condition that a given percentage of quota places should be filled by pupils from maintained schools is unlikely to have as much effect as in the case of secondary schools in securing that in a substantial proportion of cases the assistance with fees goes to pupils who would not otherwise have entered the participating school. It may therefore be difficult to ensure that assistance is so directed in the case of places gained by pupils of primary age.

Boarding provision

15. Under the present legislation only tuition fees may be charged to the APS. Quite a large number of additional places might be made available to the APS if assistance were to be extended to boarding fees. It is however assumed that this possibility should not be pursued on account of its cost: boarding costs, on average, are about twice those for day pupils.

Legislation

16. No primary legislation would be required to extend the APS within its existing terms. Some amendments to Regulations might be necessary if it were to be extended to secondary provision more generally. Primary legislation would be required to extend the scheme to pupils under the age of 11.

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Costs and manpower

17. Annex A summarises the best estimates possible at present of the eventual cost of extending the APS in a variety of ways. If all these possibilities were adopted, the additional annual cost could prove to be up to £160 million. As under the existing scheme, a proportion of this expenditure would go towards costs which would otherwise have been borne privately. It is uncertain what this proportion would be. There are unlikely to be significant savings in LEA expenditure in respect of pupils who would otherwise have attended a maintained school, because their incidence is likely to have a marginal effect on individual schools.

18. At present the APS is run by about 5 AEC-grade staff, and requires a further HMI input. An expansion is likely to require up to twice as much manpower, and perhaps more.

Timing

19. The pace for an expansion of the APS is in principle subject to two main constraints - the speed with which additional schools can be selected (which in part depends on legislation) and the extra funds which can be made available. It would be possible to subordinate the first constraint to the second, or vice versa.

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Comparison with scope of the Direct Grant Scheme

20. The Assisted Places Scheme can be seen as being, in large measure, the successor to the Direct Grant scheme. All but five of the 120 Direct Grant schools which went independent are now in the APS. There were in 1975 some 50,000 pupils in direct grant schools who - regardless of family income - had free places. Another 54,000 pupils also attended direct grant schools and the great majority paid the full fees, which were relatively modest because the Secretary of State's grant contributed to the total current expenditure of each direct grant school.

21. On existing plans, the APS will next year be providing some 14,000 places to pupils from very low income families, and a further 21,000 subsidised places to pupils from below average income families. If the APS were to be expanded on its present scholarship basis, it would be offering some 35,000 free places to pupils from very low income families, and a further 45,000 or so subsidised places to pupils from below average income families - ie its scope would be wider, and better targetted on those who most need it, than the DG scheme was.

SUMMARY OF COSTS OF APS EXPANSION

	<u>Pupil numbers</u> ¹	<u>Cost per annum</u> ¹ (£m)
1. EXISTING SCHEME	35,000	50
2. Expansion on existing basis		
i. increased quotas to schools already in ²	25-35,000	35-50
ii. additional schools on similar quotas ³	12,500	18
3. General extension into secondary field ⁴	25-50,000	35-70
4. Extension to primary age range ⁵	17,000	20
TOTAL, ALL OPTIONS	114,500-149,500	168-218
of which, additional to existing provision	79,500-114,500	118-168

1
once fully built up

2
calculated as 50/25 or 50/30 X 35,000 pupils/£50 million

3
calculated at 40/226 X 35,000 pupils/£50m X 2

4
calculated as 80/226 or 160/226 X 35,000 pupils/£50m X 2

5
calculated as 225 X 150/2 pupils and £(225 X 150/2 X 1200)m respectively, with £1,200 as the assumed cost to public funds of a prep school pupil after means-testing.

TECHNICAL PAPER NO 6

Improving the system's performance

1. This paper considers briefly certain changes relating to the LEA-maintained sector of education, with particular reference to the schools, on the assumption that:

- (1) The structure and functions of LEAs, school governing bodies and head teachers will be as envisaged after the enactment of the Education Bill 1986;
- (2) The functions of the Secretary of State will be as envisaged after the enactment of this Bill, (subject to the modifications considered in this paper);
- (3) The financial regime for local government will be as envisaged in the Green Paper.

Does the existing system meet the Government's objectives?

2. The question to be considered is how far the existing system, as defined in para 1 above, serves the Government's aim of raising standards and, in pursuance of that aim, the following objectives:

- (1) Responsiveness to consumer wishes.
- (2) Responsiveness to national needs identified by the Government.
- (3) Avoidance of excessive concentration of power.
- (4) Limitation of public expenditure.
- (5) Value for money.

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(6) Maximum benefit to pupils and students.

3. As regards consumer wishes, the system offers some prospects of responsiveness through the arrangements for giving effect to parental preferences in the choice of school, the reformed composition of governing bodies, the entrenchment of certain powers in such bodies, and the arrangements for making the governing body, and the head teacher and the LEA, answerable to an annual parental meeting. More generally, the LEA is answerable to its electors for how it exercises its wide discretion in adapting a national system to local circumstances, for example in the pattern of school organisation, and its curricular and expenditure policies.

4. As regards the objective of responsiveness to national needs, the system is less than wholly responsive to national needs identified by the Government. LEA policies may contradict the Government's priorities and the Government has only limited financial powers to serve the implementation of these priorities.

5. The system plainly meets the objective of avoiding the excessive concentration of power at the centre.

6. As regards public expenditure, the system has not been performing well in relation to the need to limit public expenditure wherever possible; but the regime envisaged in the Green Paper contains powerful incentives, and removes powerful disincentives, to economy.

7. As regards the objective of value for money, the system has been performing poorly in many respects; the Green Paper proposals and the work of the Audit Commission should substantially improve its performance.

8. As regards the objective of maximising the benefit which pupils and students derive from education, that is the objective which perhaps bears most closely on

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the aim of raising standards. What is sought is that each pupil or student should, as a result of receiving education develop, to the fullest extent permitted by his abilities and aptitudes, the knowledge, skills, understanding, attitudes and personal qualities required for adult life, citizenship and work. It is the pupil's or student's attainment in all those matters which should be the measure of the standards which the system achieves; and targets for higher standards should be expressed in terms of pupil or student attainment.

9. It is not possible to be sure what is the highest standard (as defined in para 8 above) of which pupils and students are capable either individually or in aggregate: too little is known about the potential or capabilities of individuals. Nor are there currently available performance indicators which measure attainment in all the matters in which it is sought. Nor is it at present possible to separate precisely the contribution which a school makes towards the realisation of a pupil's potential - the "value added" by the school - from the contribution made by other influences eg the pupil's home. Nevertheless certain performance indicators exist which, properly used, yield valuable information (in particular the results of public examinations at 16+ and 18+, and school attendance records), and it is possible to make broad, qualitative professional judgments about many aspects of attainment for which there are no such performance indicators; such judgments are made nationally by HMI, and locally by the professional staff of LEAs and schools.

10. On the basis of the available evidence it is clear that:

- (1) attainment at all levels of ability and aptitude varies greatly between comparable pupils from comparable economic and social backgrounds, and one can conclude that these variations are largely due to variations in the "value added" by schools;

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- (2) it is in principle realistic to aim at raising the attainment of all pupils at least to the highest level achieved by comparable pupils from comparable backgrounds;
- (3) it may be possible to raise attainment still further, i.e. above the best level so far achieved.

Accordingly the Government in "Better Schools" has set an aim - for pupil attainment - which in effect seeks to achieve the realistic levelling-up process in (2) above.

11. The policies in "Better Schools" still need to be fully implemented. Progress is perhaps fastest in the reform of the 16+ examinations system; the reform of initial teacher training (including the establishment of CATE); and, through the Education Bill 1986, the establishment of a new in-service training regime based on specific grant, the reform of school government, and an improved distribution of functions between LEAs, school governing bodies and head teachers. Much more remains to be done on establishing a sound national curriculum (not national syllabuses) which for example, makes available to every pupil the benefit of the lessons of the TVEI and makes full use of the potential of new technology to support work in the classroom; and on establishing records of achievement for all school leavers. On the very important issue of the quality and management of the teachers, other important developments are necessary if well motivated teachers of the right quality are to be deployed to best advantage throughout the school system; much of this depends on developing systematic arrangements for teacher appraisal.

12. These current and prospective measures to improve the performance of the school system so as to realise the Government's aim for higher standards of attainment would become much more effective if LEAs took their responsibilities in this regard as seriously as the

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Secretary of State takes his. It is the LEA which should ensure that pupils attainment in the schools it maintains is indeed maximised; that existing performance indicators are improved and new ones devised; that it knows - on the basis of the performance indicators and professional judgments available to it - what pupil attainment in its schools is, and how comparable schools perform in adding value; and that on the basis of this knowledge it makes the most effective use of its powers as paymaster, employer and manager of staff and resources.

13. None of these requirements is frustrated by the Government's policy of giving each school a life of its own, and a degree of independence to the governing body and the head teacher. Indeed the effectiveness of the reformed governing bodies in improving pupil attainment would be further enhanced if they received systematic and continuing training on a much larger scale than at present envisaged under the Education Bill 1986. But giving the governing body and head teachers entrenched powers vis-a-vis the LEA could, as Ministers recognise, create tensions in relation to the LEA's functions of managing the system.

14. Under the existing system it is not open to the Secretary of State to exercise these managerial functions on behalf of the LEA, nor could he conceivably acquire the knowledge and expertise (eg through HMI) to do so. It is neither possible nor desirable for the Secretary of State to undertake this monitoring at the level of the individual school. His task is rather to set the framework; to promote research and development where necessary to provide the tools including new and better performance indicators for use by LEAs and schools; and to undertake national level monitoring through HMI and APU to provide background knowledge against which the local position can be seen more clearly. But the system does place a general duty on him to ensure that each LEA uses its managerial powers in the interest of pupil (and student) attainments. His ability to discharge that

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general duty is limited by:

- (1) the arrangements for securing the professional effectiveness of teachers;
- (2) the mechanism by which LEA-maintained education is financed.

Modifications in respect of both these matters are proposed below. They could serve to improve the performance of the existing system in relation to most of the Government's objectives.

Teachers

15. We need well motivated teachers of the right quality deployed to best advantage throughout the school system. There are three main areas for Government action here. These are:

- (1) the supply of sufficient, suitably trained and qualified teachers with appropriate personal qualities, including teachers of shortage subjects such as mathematics, physics, CDT;
- (2) the management of the teacher force, including such matters as appraisal, in-service training, career development, deployment, promotion, and the dismissal of those who are incurably ineffective.
- (3) a pay structure, pay levels, and forms of contract and conditions of service which support supply and management of the desired kind and quality.

The quality of head teachers is crucial. Measures (within the scope of (2) and (3) above) to help secure the appointment as heads of the most suitable teachers, and to promote good performance from them in post, are therefore of great importance.

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16. The supply of sufficient and appropriate teachers, apart from certain shortage subject areas, is relatively well in hand. The provision of initial teacher training courses is steered and partly controlled by the Secretary of State. All such courses are being inspected by HMI, and all are under review by CATE. This work must be watched, but does not appear to be in need of major change or further major development at present. Long term improvement in the supply of teachers of shortage subjects is likely to depend on the achievement of satisfactory pay settlements, but a number of measures to alleviate the shortages, such as bursaries for trainee teachers, specially designed initial and in-service training courses and cooperative efforts with industry, are in hand.

17. The management of the teacher force is in much less satisfactory shape. This raises many complex issues. Moreover, as noted in para 13 above, there is a tension between the importance attached to the degree of independence individual schools should have in staffing as in other matters, and the responsibilities of the employing authorities for such matters as in-service training and career development.

18. The Government has already established an in-service grant scheme for training in national priority subjects, and plans a new specific grant regime for all in-service training from 1987-88. This work must be pushed forward and expanded, but full benefits can only be obtained from it if it is linked to active local authority arrangements for appraisal, career development, and the appropriate deployment of teachers. Appraisal has been caught up in the recent teachers' dispute. For the moment it must be pushed forward in the context of the ACAS-led negotiations on teachers' pay and conditions of service. Despite Ministerial encouragement and exhortation it is still a small minority of local education authorities

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who engage in systematic work on career development and positive deployment of teachers with promotion in mind - who identify, for example, teachers likely to make good deputy heads or head teachers in due course and who encourage those teachers to take part in appropriate in-service training and to widen their teaching experience with future promotion in mind. For the immediate future the plan is to make progress across this area through the introduction of the specific grant regime for in-service training. In the longer term wider specific grant powers, or a new education grant (see para 20 below), could be used to make grant conditional on effective local authority arrangements, including the use of the advisory service, for these teacher management matters. This approach could also apply to the removal of incurably ineffective teachers. On this last point it is for consideration whether the introduction of a General Teaching Council (GTC) might be helpful. A short note about the GTC proposition is attached. It must be doubtful whether a GTC largely under the control of the teacher unions could be expected to serve the Secretary of State's purpose. The alternative would be a GTC appointed by the Secretary of State, but it appears likely that such a body might be heavily dependent on local authority cooperation and identification of ineffective teachers. Moreover, any such body would presumably have to have much wider powers than teacher management, and might well conflict with CATE.

19. Neither a satisfactory supply of teachers nor satisfactory management of teachers - including crucial improvements in the selection and training of head teachers - can be expected unless the pay levels, pay structure, forms of contract and conditions of teachers' service are properly supportive of supply and management. The events of the past year provide strong evidence to the effect that it is most unlikely that these matters can be satisfactorily determined through collective bargaining between the teacher unions and the local authority associations, however such negotiations are carried out - free collective

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bargaining, collective bargaining within a statutory framework (Burnham), or assisted by ACAS. If Ministers conclude that the only realistic way of determining these matters to match the Government's objectives is through the use of a statutory review body covering both pay and conditions of service, then the question must be how to work towards the establishment of such a body. Ministers will not be able to agree to the local authority request for simple repeal of the Remuneration of Teachers Act 1965. The current ACAS exercise must be allowed its full chance to come up with successful outcomes. But meanwhile it is necessary further to develop ideas for a statutory review body, examining in particular possible terms of reference, methods of operation, coverage (school teachers, FE teachers, university teachers?), and methods of establishment.

20. Much of what is said in the previous paragraph about all teachers applies particularly strongly to head teachers. We need more in-service training opportunities for head teachers and potential head teachers, some of which might best be designed by successful head teachers in consultation with managers from industry and commerce. We need to encourage LEAs to improve their procedures for selecting new head teachers. Specific grant support for schemes to identify and train likely head teachers, and regulations to control appointment procedures, are possibilities. The appraisal of teachers should include provisions for head teachers to propose their own objectives and to evaluate their performance against those objectives. In all this the LEA advisory service has an important part to play, and may need to be strengthened.

Financial mechanism

21. A new financial mechanism is proposed with the following main features:

- (1) an education block grant for which the Secretary of State would be responsible to Parliament

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and on which he would deal directly with LEAs. The block grant would not be available for expenditure on services other than education. It would be based on each LEA's needs. It would not vary with the LEA's actual expenditure on education, but would be based on a nationally determined assessment of needs. It would assume an explicit local contribution to the financing of education. This would be the same per head for all authorities spending at the level of their needs assessment. Authorities spending below that level would be seen by their electors to be making a deliberate choice to benefit local taxpayers instead of spending on education. Marginal expenditure above the needs assessment would fall to be met entirely by the local taxpayer.

- (2) A separate education needs assessment. Under present arrangements there exist soundly based, comprehensible and generally robust GREs. The Green Paper proposals, which take care of the problem of resource equalisation, are in principle compatible with a wholly separate education block grant.
- (3) An increased power of specific grant - amounting to about 10 15 per cent of total local authority expenditure on education.
- (4) Capital expenditure on education would be separately controlled by the Secretary of State, perhaps on a gross expenditure basis.
- (5) A financial management information system based on statutory annual reports by each LEA on performance and value for money related to the objectives for the education system identified by the Secretary of State and using performance-indicators set by him.

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22. The Secretary of State's steerage of the education service would be strengthened in the following ways:

- (1) The education block grant would be determined in the light of direct discussion between the Secretary of State and the LEAs, bringing a new clarity to the relationship. It would enable the Secretary of State to relate national policies more clearly to the total of grant to be made available for education and in the process to spell out what he expects of LEAs in terms of performance and the management of their resources. The Secretary of State would be better placed than now to reduce divergence of provision unjustified in a national service. The needs assessment for education would become normative in a way effectively prevented by the system of unhypothecated grants which is retained under the Green Paper proposals.

- (2) To the extent that LEAs failed to respond to national priorities, it would be open to the Secretary of State to reduce total education block grant and direct resources through specific grant. The support of up to 15% of total education expenditure through specific grant would enable the Secretary of State more effectively to secure and monitor the performance of LEAs in key policy areas and to vary the amount of grant according to his assessment of that performance. Specific grants enable the Secretary of State to set conditions in such a way that LEAs would only receive grant if they undertook to incur a pattern of qualifying expenditure that satisfied national objectives. The power to pay specific grants could be brought to bear directly upon areas of expenditure crucial to the delivery of more effective education. These would include expenditure on in-service

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training; appraisal systems for teachers, and local authority advisory services. In every case the Secretary of State would be able to set general and specific conditions relating to the delivery of national objectives. Thus grants for in-service training could be subject to conditions about better management of the teaching force or the development of teaching approaches which will adequately stretch bright pupils; and grants for growth in local authority advisory services to conditions about fully worked out curriculum policies and the readiness of LEAs to act upon particular aspects of HMI reports.

- (3) Capital expenditure on education, through individual LEA allocations, could be more clearly directed in support of national objectives: in particular it would be used to encourage rationalisation and statutory reorganisation.

23. The financial regime outlined in paras 21 and 22 would be supported by the features of the Green Paper proposals which are intended to control total public expenditure, in particular the proposals to widen the local tax-base; to ensure that the costs or benefits of any changes in LEA expenditure fall on the domestic taxpayer alone; to remove local authority discretion to finance extra expenditure at the expense of non-domestic ratepayers; and to retain a power similar to existing selective rate-capping powers.

24. As a general rule specific grants tend to promote additional spending, partly because they aim to level up provision. But this need not be so. In the present case the total grant for education would be fixed. If specific grant increased proportionately more than education

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block grant, it would be at the expense of the latter, and LEAs would be under pressure to reduce expenditure not qualifying for specific grant because their local residents would have to meet the grant shortfall if no reduction were made (and the equivalent of rate-capping would also remain available).

25. The financial mechanism outlined above can promote value for money in a number of ways:

- (1) A separate grant system and the annual discussion with LEAs that it entails ensures a clear and explicit link between national objectives and the national contribution to LEA expenditure. The national policies spelt out in terms of targets (eg surplus places to be removed or NAFE staff-student ratios) would be clearly perceived and would feed through into education needs, assessments and grant. It would be possible to work towards a disaggregation of national targets so that their consequences could be perceived and understood at local level. At present that just discernible process becomes lost in a needs assessment and grant system which is in support of all services.
- (2) The conditions attached to specific grants could be used to secure value for money as well as the delivery of national objectives.
- (3) LEAs would be required to address value for money directly in every area of expenditure as a result of the statutory requirement to report to the Secretary of State on performance and expenditure on the basis of a range of performance indicators and output measures. This material together with financial outturn information would form part of the analysis for the annual discussion with LEAs on education grant.

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- (4) Specific grants with precisely defined objectives and explicit conditions would enable the Secretary of State to monitor the effectiveness of the expenditure and the specific grant in question. This would require an extension of the function of HMI as his main source of information about the performance of the education system. Additional manpower would be required to enable HMI to make concentrated inspections of institutions and areas of activity directly affected by the specific grants.

Legislation

26. A decision to set up a statutory review body covering teachers' pay and conditions of service (para 19 above) would require legislation, which might have to be enacted in this Parliament. A separate grant regime for education (paras 21-25 above) would also require legislation. This could conveniently form part of the legislation which will implement the Green Paper proposals early in the next Parliament. If enacted then the separate grant regime would serve to support the objectives of the new arrangements for teachers' pay and conditions of service.

Manpower

27. A statutory review body for teachers' pay and conditions is unlikely to affect administrative manpower in central and local government. The manpower consequences of a separate education grant regime are difficult to estimate and would depend on how the regime was operated. Such a regime might require something like 40 additional administrative staff at the DES, plus perhaps 25-50 additional staff in HMI. There would also be some increase in the administrative staff of LEAs. But the increased value for money and efficiency in the use of resources could lead to significant savings in, for example, teacher manpower.

A GENERAL TEACHING COUNCIL AND THE ASSESSMENT OF TEACHER PERFORMANCE

1. There is a long history of attempts to form a General Teaching Council (GTC) to regulate the teaching profession. Successive Secretaries of State have reserved their position, but have never been faced with a proposal commanding agreement among the teachers' unions.

2. Recently the teachers associations have been meeting under the leadership of Mr Sayer (recently President of the Secondary Heads Association) and Professor Ross (recently Chairman of the Universities Council for the Education of Teachers (UCET)) to discuss new proposals for a GTC. Although there has been no formal agreement amongst them as to its composition and functions, we understand that they envisage a body dominated by representatives of the "registered teaching profession" but with representation on the governing body of central and local government, industry and parents. Such a body might:

- (i) grant or withdraw qualified teacher status (QTS), thus replacing the Secretary of State's power of approval of initial teacher training courses and the CATE role in scrutinising such courses against given criteria;
- (ii) control procedures for teacher probation;
- (iii) advise the Secretary of State in relation to forecasts of teacher demand, superseding ACSET, but still requiring access to DES data;
- (iv) advise employers and the Secretary of State on good practice in induction and in-service training;
- (v) take over the Secretary of State's role in relation to teacher misconduct.

3. We do not know what the attitude of the local authorities would be to these proposals. It would however seem unlikely that either they or the unions would see such a GTC as contributing much to the solution of the problem of ineffective performance by qualified teachers. In Scotland there has been a Teaching Council for some 20 years and this has dealt with teachers' misconduct matters, but in general has left ineffectiveness to be handled by employers.

4. It does not seem likely that the Secretary of State could steer the current deliberations of the teachers' unions to an acceptable conclusion, or that he could at the present time entrust these important matters to a GTC largely nominated by the unions.

5. An alternative would be a GTC designed and appointed by the Secretary of State. So far as the removal of ineffective teachers is concerned this Council would presumably rely upon employers to draw attention to specific cases of concern arising out of observation by their own advisory services and senior teaching staff. In order to make a recommendation to the GTC that a teacher should lose qualified teacher status, the employing authority or governing body would have to be prepared to take the view that the individual would not be any more effective in a different post. The central body would then have to take a decision on deregistration on the basis of the evidence before it.

6. In considering this possibility Ministers might want to bear the following considerations in mind.

- (i) A body which was thought competent to judge whether a teacher is ineffective might logically claim to influence, if not to determine, what makes an effective one and therefore what sort of initial training is necessary for the achievement of qualified teacher status.

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From: J Anson
Date: 11 April 1986

CHANCELLOR

cc
Chief Secretary

EDUCATION: PRIME MINISTER'S MEETING ON 15 APRIL 1986

The Secretary of State's minute and its attached papers are very long, and the key policy points are submerged in a lot of second-order detail. It is also very thin on costings. The meeting will only be able to have a second reading debate of the main options. Your first objective should be to urge that any proposals which emerge from the meeting must be properly considered and costed, and related to the forthcoming Public Expenditure Survey.

2. The Secretary of State considers 6 options:-

(1) Transfer responsibility to directly-elected single-purpose local education authorities.

(2) Transfer control to the centre, operating either directly, or through a central agency, or through area agencies.

(3) Convert maintained schools into autonomous bodies competing for parental custom through a system of "credits", on a standard scale related to age of pupils, etc.

(4) Create a "Government-maintained" category of privately-owned schools.

(5) Extend means-tested assistance through the Assisted Places Scheme.

(6) Improve the existing LEA sector through

(a) a separate education grant scheme comprising an education block grant, based on education GREs, and a specific grant, which would be discretionary, and related to output and performance indicators and used to "police" the teachers' contract.

NO

(b) a statutory Review Body for teachers.

3. He dismisses the first three, which are the more radical options, and proposes that the Government pursue the last three, publishing a White Paper (with green edges) before the Party Conference. All the options carry costs. Of those he proposes, (4) and (5) are of relatively marginal significance to the total school system. They may be seen as attractive additions to parents' choice, but is that on a scale worth the cost? Option (6) is the main thrust of the Secretary of State's proposals: we doubt whether it gives the sort of leverage which he needs, and claims for it.

What is wrong?

4. His diagnosis is that there is too much power with local authorities and teachers, the producers; too little with the taxpayers and consumers. But he also says that more money needs to be spent. You will want to disagree:

- Sir Keith Joseph himself said in a PQ last Tuesday that spending per pupil is now some 19 per cent higher than in 1979, with a best-ever pupil-teacher ratio of 17.8 to 1.

- The White Paper "Better Schools" says that in the last 20 years current expenditure on schools education in England and Wales has doubled in real terms, while pupil numbers rose by 11 per cent; and during the last decade the pupil-teacher ratio rose by 15 per cent in primary schools and 6 per cent in secondary schools.

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- ILEA spends 60 per cent more per pupil than the average outer London boroughs and Metropolitan districts (of which only 15 per cent is explained by London weighting and extra needs): is it correspondingly better?

✓ If more money were the solution, we would have seen some improvements by now.

5. What is needed now is to find ways of getting better value out of the £8½ billion already being spent on schools. You could quote the useful answer which the Prime Minister gave to Mr Hamilton in the House last Tuesday (flag A).

The Expenditure Context

6. In any case this has to be seen in the context of the Government's plans to reduce the burden of public expenditure and taxation. Public expenditure as a percentage of GDP this year is estimated (at 43 per cent) to be where it was in 1978-79. Particularly with the fall in prospective oil revenue we need to hold to overall public expenditure plans. But a large part of the Reserve will already be needed to make realistic provision for local authority current expenditure, ie to underwrite likely levels of spending under existing policy.

7. Education is a big programme, and already potentially troublesome on account of teachers' pay. Substantial extra provision could in practice only be found by cutting back on one of the other large programmes; defence, health, social security, housing. So if the Government puts more money into education-

(a) what will it really get for it?

(b) which programme will it reduce?

Objectives

8. The Secretary of State's objectives are more leverage for the Government and for the consumer. The root question is how we are to get the better efficiency mentioned in the Prime Minister's answer last Tuesday. One can distinguish

3 kinds of answer based on 3 lines of accountability: (i) to the local electorate, (ii) to central government, or (iii) to the consumer. Underlying the choice between particular options is a more basic choice of which kind of accountability will best spur the producers to provide better education.

9. The Green Paper on Local Government is about ways of strengthening the first - better accountability to local residents. Sir Keith Joseph rejects this as insufficient (paragraph 18), but does not propose a radical way of strengthening either of the others. The second could be strengthened radically by his centralist option (2), but this is summarily rejected. The third could be strengthened radically if there was a genuine market for consumer choice (see paragraphs 15 - 17 below).

THE OPTIONS

(1) Single-purpose local education authorities

(2) A national education service

10. These can conveniently be considered together. Both would help to focus accountability for managing the education service.

11. Option (1) would do this only to a more limited extent. It would have the merit of creating authorities which would be judged solely by their performance in delivering a satisfactory standard of education. But it would still have the disadvantages of mixed central and local funding.

12. Option (2) is more far-reaching, in any of the three forms suggested. You may like to read again Mr Gilmore's analysis of the possible models and their respective merits (flag B). He concluded that the best form of national education service would be one working through Boards

appointed by the Secretary of State. This seems to be the option which gives central government most real leverage. By the same token it is the most contradictory of the Green Paper on Local Government. The Secretary of State's rejects it for a number of reasons - centralisation against his political philosophy, levelling up of spending, damage to local government. With the experience of GLC abolition, there must also be doubts about the practicability of transferring schools from local authorities to area Boards on the appointed day in the face of likely non-cooperation from a good many elected authorities.

13. It is worth considering whether there is another option somewhere between (1) and (2), eg single-purpose local education authorities, with mostly elected but some appointed members, administering centrally-determined budgets. This would share with option (2) the advantage of clear accountability for finance, but would not eliminate the locally elected element. The appointed members might be helpful in enabling the Secretary of State to introduce representatives of the industrial and consumer interest. There would need to be extensive use of comparative indicators of performance, building on the work of the Audit Commission. But the key question, as Mr Gilmore pointed out, is whether such authorities would turn their attention downwards, to making better schools, rather than upwards, to lobbying for more money and blaming shortcomings on central government.

14. There are some difficult judgements to be made here. But if the meeting wants some genuinely radical options considered, this is an area which certainly ought to be properly explored in any further work. The option suggested in the previous paragraph might be included in this.

(3) Vouchers/credits

15. The argument about vouchers turns critically on whether the entitlement to universal free education is accepted as an overriding constraint. A voucher system is only likely to create a genuine market choice if schools can compete to some extent on price as well as quality (see Selden, paragraph 11(x) of the paper).

16. Sir Keith Joseph regards the constraint as overriding, and his Option (3) is thus a considerably watered-down version of a voucher scheme. It gives parents little more than choice between any school which has a vacant place - not a substantial advance on what they have already. It also means that schools are funded on a standard scale of payments per pupil, which he accepts could make bad schools worse as well as better schools better (paragraph 11(iv)). He rejects it for the reasons given in paragraphs 11-12. Given the constraints he has accepted, this conclusion seems reasonable.

17. The meeting may want to consider whether it wants to look again at the wider question of vouchers. But it should be noted that a more thorough-going voucher scheme is likely to have a considerable deadweight cost, because of the cost of giving vouchers to those pupils who would have opted for private education anyway. In the 1983 discussions, this deadweight cost was put at up to £330 million, which might have been reduced to £60 million if it was subject to a severe means test. This would be in addition to any net cost of the scheme for all the other pupils, which might be quite substantial, at least in the transition.

(4) Government-Maintained (GM) Schools

18. The proposal is that there should be a new category of school, numbering some 400 primary and 100 secondary schools, which would be maintained by the Secretary of State. They might be sponsored and run by charities, livery companies, entrepreneurs, or parents, but would deliver the Secretary of State's policies on teaching and the curriculum.

19. This option is an expanded version of the proposal which Sir Keith Joseph recently put to H Committee. He sought and obtained agreement to explore with potential sponsors the feasibility of an experiment with a limited

PERSONAL AND CONFIDENTIAL

number of GM primary schools. The cost would be some £2 million if, following the feasibility stage, a decision were taken to proceed with the experiment itself. The first step would seem to be to await the report of the feasibility study.

(5) Assisted Places Scheme (APS)

20. The existing means-tested APS will by 1988-89 be providing 35,000 places at well over 200 independent schools at a cost of £50 million. Sir Keith believes that the number of places could be doubled without diluting the present 'scholarship' basis of the scheme, which confines it to the more able. He suggests 80,000 places (3 per cent of total secondary pupils) and an additional cost of £70 million. (He also canvasses a limited relaxation of the ability criteria, as well as extension to some additional secondary schools and to certain primary schools. With these additions the total cost would rise to some £200 million a year.)

21. The number of children involved in the proposal is relatively small in relation to the total population, and it is not likely to provide real new "leverage". Is it worth that amount? This and the previous proposal should be steered in the direction of the public expenditure Survey.

(6) Improving the LEA sector

22. The proposals here seem to be the kernel of Sir Keith Joseph's own thinking. They have two main elements: grants and teachers.

Grants

23. The proposal is a mixture of block grant and specific grant. The block grant seems largely cosmetic. The block grants payable under the Local Government Green Paper would themselves be related to GREs, including education GREs. A separate education block grant would simply highlight the education element of the GRE. This may have a modest

presentational advantage, but it does nothing for control or accountability, so long as the local authority can switch resources from one service to another by using the money derived from rates or community charge.

24. The specific grant is another matter. In effect this is a way of varying the block grant by a significant amount up or down, depending on whether the Secretary of State considers the authority is performing satisfactorily.

25. This would certainly provide some leverage. But how far would it be discretionary or objective, and how radically could it be used in practice? The Secretary of State places a good deal of weight on developing performance indicators. We would applaud this and hope he will do so. But are they likely, in the immediate future, to be strong enough to carry the weight of justifying the allocation or withholding of large sums of money, bearing in mind that this kind of issue is likely to end up, sooner or later, in judicial review? Moreover, if the indicators are the main criterion, is there not a danger that the bad schools will get worse for lack of funds, as well as the better schools better (paragraph 11(iv) again)?

26. The Secretary of State argues that combination of education block grant and specific grant "need not push up" the cost, because beyond the Government's contribution (defined by the needs assessment) the addition would fall on local residents. But the pressures of the system would all be upwards, and it is not clear that the Government could easily stand back and let authorities charge local residents in this way and blame the central government (as they obviously would).

Teachers

27. The main proposal on teachers is a statutory Review Body, designed to reduce the negotiating role of the unions

and turn them back into professional bodies. The aim would be to get a better pay structure, with higher differentials. Legislation would be used to impose the new teachers' contract, and the specific grant would also be used to "police" it.

28. With a professional body like the Bar Council now litigating for higher pay, this seems like yesterday's prescription. The weaknesses of Review Bodies (disregard of economic criteria and affordability; tendency to be over-influenced by sectoral claims) are well known. An independent body would not necessarily take the line we wanted on differentials, etc. Nor is it clear that the teachers would abstain from strike action (or other industrial tactics) if they do not like the award, even if it is backed by legislation. The proposal is likely to be very expensive, with no guarantee of producing the structure we want. The radical option which needs to be explored here is being prepared to pay more for special skills, eg science teachers, without jacking up the pay of the whole workforce. But a Review Body would not necessarily help with this.

29. The reference to using grant to "police" the teachers' contracts is mysterious, and probably impracticable. On what criterion would it be withheld? Either a major sanction would be applied discriminatorily, throwing a major burden on the community charge, and open to legal challenge; or the scope for argument (and legal challenge) about the right measured response to particular shortcomings would be endless. An explicit link between financing and the teachers' contract would also give teachers an opening to link industrial action to the amount of government finance. There would still be the problem of getting better management of the teachers by the employing authorities.

CONCLUSION

30. You will want to judge from the meeting how much real enthusiasm there is for more radical solutions, bearing in mind the amount of political capital already invested in the Local Government Green Paper. But the main points to be made from a Treasury standpoint are:

✓ a) Disagree that there is scope for massive extra spending. The problem is one of management and accountability, not funding. The job now is to make better use of the resources available (cf the PM's answer at flag A).

b) Any proposals which are thought prima facie worth further study should be properly examined and costed.

c) If the meeting favours examination of radical options, these should include something on the lines of option (2), and the intermediate option mentioned in paragraph 13 above.


d) Whether it is worth re-examining vouchers (or credits) turns on whether the meeting accepts Sir Keith Joseph's prior constraints. If they are re-examined, there needs to be a proper estimate of the cost and of how far the scheme has any real impact on consumer choice.

e) If the Secretary of State wants to pursue options (4) and (5), they can be considered in the Survey.

f) Proposals on grants need to be considered in the follow-up work on the Green Paper on Local Government. But doubt whether a specific grant will provide the kind of leverage required, or be the right instrument to "police" the teachers' contract.

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g) On teachers, oppose a statutory Review Body, which would be expensive, and could not be relied on to come up with the right answers. ACAS should be given a chance to negotiate a better pay structure.



J Anson



From: J Anson
Date: 8 May 1986

MR KUCZYS

cc
Miss Rutter

EDUCATION

I mentioned yesterday evening the letters which were written last month by the Home Secretary and the Environment Secretary on the question of education. The letter from the Home Secretary was mentioned in Mr Norgrove's note of the Prime Minister's meeting on 24 April; that from the Environment Secretary was not. You thought that the Chancellor had not in fact seen either.

2. Brian Griffiths gave me copies of both letters during the course of a chat which I had with him yesterday afternoon. You and Miss Rutter may therefore like to have the attached copies to keep with the Chancellor's and Chief Secretary's papers. In the briefing for the next Ministerial meeting, I will take account of these letters along with any further papers which DES provide for the meeting.

3. For obvious reasons I should be grateful if it was not revealed that I had obtained the documents in this somewhat unorthodox way.



J ANSON



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QUEEN ANNE'S GATE LONDON SW1H 9AT

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14/4/86

7 April 1986

Dear Prime Minister,

It seems to me most encouraging that a new debate about education is getting under way within the Party. It reflects growing concern about schools, particularly among our supporters. Many of the heads of the Home Departments in your Government find the signposts of our own policies pointing in the direction of educational reform. We all have to be educationists now, because the policies which we wish to promote cannot thrive without changes in education. This must be true of Kenneth Baker, David Young and Paul Channon. It is certainly true of myself because of the Home Office interest in law and order and race relations. The problem of educational standards is central to tackling the problems of the blighted inner cities. So I very much hope that out of this debate will come a scheme for a new Tory Education Bill which will emerge in outline this year and form a central plank of our next manifesto.

I drafted what follows before seeing recent press reports which cover some of the same ground, and my thoughts are independent of whatever thinking lay behind these reports.

Such a scheme will need to go very wide and encourage a revival of the variety of educational provision which was once one of the strengths of our school system. It will have to deal with increasing the scope for parental contribution; with the need to take education once again out of the block grant; with the perils of indoctrination; with the structure of the teaching profession; with equipping young people better for the world of work and to play a responsible part in society; and with the need for increased resources. These are not matters directly for me as Home Secretary. But there are some points which arise out of our experiences in the Home Office and which perhaps you will allow me to put now in this informal way.

The peak age for offending for males is now 15 and for females 14. In our inner cities there are some excellent schools, but it is hard to avoid the impression that the system as a whole is failing those who need it most. Indeed

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where the problems of the children are the greatest the performance of schools is too often at its weakest. In these places truancy runs at 20% and a lot higher among older pupils. Pupils derive their information and impressions not from teachers but from their peers and from television. School is often irrelevant except as a social meeting place for the exchange of experiences among peers. Yet the potential importance of schools is enormous. It is a part of the structure of the lives of these young people even though it may contribute little to their well-being. It has the potential to offer stability to people whose lives often lack a sure foundation.

As I wrote to you in October, the chance of peace in our inner cities depends in the long run on our ability to prevent the pool of young unemployables from being constantly replenished from below. That chance depends substantially on what we do about schools.

In the inner cities I doubt if there is any prospect of succeeding in this by giving new power, responsibilities or choice to parents, white, black or Asian. To take an extreme example, the young black mother coping alone with five children would simply be unable to understand or cope with fresh responsibilities. If she were minded to intervene she would most likely be intimidated by a teacher whose mastery of educational jargon would be sufficient to reduce her - and many other parents - into dumb acceptance. Furthermore, I believe that there is every likelihood in the inner cities that supposedly independent parental representatives on governing bodies will often effectively be selected and manipulated by teachers, many of them acting for political purposes. What this harrassed single mother wants for her children, and what they need to keep them within the boundaries of our society, is a good school provided by the community. But I strongly believe that we cannot succeed in the areas I am concerned about by propping up the existing LEA system by fresh resources or renewed exhortation. The decay and politicisation of local government in some of them has gone too far.

In the light of this analysis, I see part of the way forward as being along the lines of:

- a) the encouragement of voluntary aided provision by churches, including the black churches, or by responsible community groups. Inspection to enforce standards rigorously is essential, but provided this is forthcoming we should face squarely the consequences of encouraging such variety. The problems of being thought to be encouraging separatism are considerable, as are aspects of the education which some fundamentalist Moslems would wish to promote. But there is perhaps more to be said for having a few

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schools run by Asians teaching some of the values of the sub-Continent as well as the English language than perpetuating the present incoherence of schools in areas like Tower Hamlets.

- b) the establishment in some of the inner cities of direct State schools, funded, staffed and run by Government (either the DES or a special Board) with their own staff structures, curriculum and salary scales. LEAs in some of these areas would have to be relieved of their buildings and responsibilities, perhaps at first on a pilot basis.

(a) and (b) are not alternative but complementary. (b) is heretical of course, but politically acceptable in my view as part of a wider package covering the points I sketched at the start of this letter.

Of course we can only think in this way because of the success of Keith Joseph in transforming the debate. The fact that there is now so much emphasis on the objective of raising standards, is very much a result of the notable reforms which he instigated. Much can still be achieved, particularly once the teachers' dispute has been brought to a close, through leadership and through the reforms which he is pursuing in teacher training and the profession. Nevertheless, particularly in the areas of highest stress I think that this will not be enough and we need to examine more radical options.

I am sending a copy of this letter to Keith Joseph.

Yours,
Douglas Hurd.

DOUGLAS HURD



C.c. PS/Sof S.
 PS/W W
 PS/AR
 PS/W Heiser
 W Furnals
 W Browley
 W Ramsay
 W Wood (with PPs)

2 MARSHAM STREET
 LONDON SW1P 3EB
 01-212 3434

My ref:

Your ref:

25 April 1986

Dear Secretary of State,

EDUCATION AND LOCAL FINANCE POLICY

Chris Patten's recent speech referring to the case for greater central involvement in educational priorities, and press speculation about other policy options you may be considering, has set me thinking about some of the possible wider implications for local government and particularly for our Green Paper on Local Government Finance.

I well understand why you may feel it necessary to give a stronger lead on educational priorities. Important new initiatives may be difficult to set and see through where they rely on the independent decisions of more than 100 authorities. That is not, of course, a new problem. The Green Paper foresees a role for specific grants in such circumstances and I would not be opposed in principle to some well targetted grants in the education field.

But scale and purpose are very relevant here. By tradition and conviction, our party has seen great dangers in the view that Whitehall knows best, upholding local choice against the corporatist state and central bureaucracies. That approach is reaffirmed strongly in "Paying for Local Government", where we explicitly reject greater centralism in favour of enhanced local accountability.

It is very much a question of degree. A complete takeover of education, with central management and central priorities, would not raise the same difficulties as increased intervention in a service where responsibility continued to be formally at the local level. In the former case there would be a clear cut decision to assume responsibility centrally. But increased intervention separates management and financial responsibility and confuses accountability. That thinking underlay our conclusion in E(LF) last year that we should reject the options of central funding for education or even teachers' salaries.

Well-directed specific grants need not give rise to these problems. But much depends on how far authorities' main stream funding is eroded. Whatever the virtues of individual grant proposals, there is a point at which the total involved is so great that local choice and local accountability become submerged by the weight of central priorities. The demands of a single service, whether it be education or social services, may not be responsible for such an outcome on their own, but the sheer size

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of the education budget means that a substantial change there could be critical. The danger is that a more centralised stance by one Department could provoke a chain reaction of demands from other spending departments. A major extension of intervention through specific grants would have implications not only for the localist thrust of our Green Paper, but also for our general policy of restraint in local spending. It could in the end seriously endanger our ability to move to a simpler, more stable and accountable grant system.

I do not think I need explain the first of those assertions. The other two, however, need spelling out. On spending, we have invested much effort to restraining the total of local spending. Yet all our experience shows that specific grants do not just redirect priorities, but actually increase the total demand for services. I am even more concerned about the impact on our proposals for the grant system. I assume that your intention would be to operate any specific grant so as to increase support to education authorities following policies of which you approved at the expense of others. So for mainstream education provision service standards and costs to local voters in different areas would vary in ways which would not be immediately clear. And, if specific grants are to be used to promote new policy initiatives, you may presumably want to move resources from year to year to reflect changing priorities. So authorities' funding would not be stable from year to year. Again there is a question of scale; but if significant sums are involved, the clarity of the link we are seeking between local services and local tax bills and, particularly, between changes in spending and changes in tax bills, would be lost. Even within the present grant arrangements, the bids you have made for AFE and £500m of other specific grants would lead to an increase in the numbers of authorities falling outside the block grant system.

I would be glad of an opportunity to discuss with you how far you see this process going, the implications for local finance generally and the timing of any proposals. And if any developments are likely to be running in parallel with "Paying for Local Government", we must identify the interactions very soon; there is not much time.

I should also like to consider with you whether there are any alternative approaches. Do we perhaps need to take a fundamental look at the PES provision for education to see whether that is realistically aligned with what we want the education service to deliver? Or are there options through legislation which would give the necessary push to developments without injuring the local finance package, which so far seems an electoral asset, and without putting into the hands of another government a flexible instrument for intervening in the education system in ways we would not like?

Yours sincerely,
Kenneth Baker

KENNETH BAKER

(Approved in draft by the Secretary of State
and signed in his absence.)

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FROM: JILL RUTTER

DATE: 12 May 1986

Handwritten signature

Handwritten initials

PS/CHANCELLOR

cc: Mr Anson

Red checkmark

EDUCATION

The Chief Secretary has seen the letters from the Secretary of State for the Environment and the Home Secretary under cover of Mr Anson's minute to you of 8 May.

2 The Chief Secretary has commented that he agrees with the Home Secretary about inner city education.

Faint watermark: CONQUEROR

Handwritten signature: Jill Rutter

JILL RUTTER

Private Secretary

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PERSONAL AND CONFIDENTIAL

RF

From: J Anson
Date: 13 May 1986

CHANCELLOR OF THE EXCHEQUER

cc

Chief Secretary
Mr Gilmore
Mr Cropper

EDUCATION: PRIME MINISTER'S MEETING ON 14 MAY

The Secretary of State's paper responds to the remits from the Prime Minister's last meeting to examine further options:

(1) On a core curriculum, he poses but rejects the idea of developing detailed national syllabuses, as opposed to the aim in "Better Schools" of getting a very broad national curriculum by agreement. He suggests that greater central prescription in this field would require legislation and would go against the grain of an eventual system driven by the customer. He sees little prospect of it working without nationalisation of the school system.

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generate?

(2) On parental choice, he thinks "compulsory open enrolment" is worth considering although of limited effectiveness; but that backing this by per capita finance, based on pupil enrolments, would be bitterly opposed and very expensive, and in his judgement is not at present feasible.

(3) On devolving decisions to the level of the school, he considers the arrangements already proposed in his Education Bill provide a reasonable balance and should be given a try.

(4) On "middle ways" he poses a choice between expanding the Assisted Places Scheme (APS) or re-introducing Direct Grant (DG) schools, and agrees that these options

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need to be further considered. He says that legislation would not be necessary (although it might be desirable for the DG scheme), but in either case there would be a significant deadweight cost.

(5) He repeats support for his own proposals in the previous paper.

General points

2. You are already aware of the main arguments on these options, which arose from the last meeting. Detailed comments on each of them are attached in an Annex to this brief. The key point for the Treasury is the cost of options (2) and (4). For the "middle ways" in (4), the cost depends on the number of places provided, but the tentative DES costings in Annex B suggest costs of around £100 million or more to achieve only a quite marginal impact on the system. (75,000 secondary pupils, for example, is 2½% of secondary pupils, or 1-1¼% of the total school population; and some of these might have chosen private education anyway.)

3. For the more radical option in (2), the costs are more difficult to quantify, but the DES are clear that they would be massive, particularly during the transition. The main reasons are:

(a) the likelihood that schools currently spending less than the average per pupil would spend up to that if given "credits" on that basis;

(b) the difficulty of holding the "credits" to the average level, when at least some (although not all) of the present differences in spending may be justified by differing needs;

(c) the existence, during the initial turbulence of partly-filled schools which could not be closed at once;

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(d) the need for start-up funds for schools refounded as independent entities.

4. The remaining options (core curriculum; compulsory open enrolment; devolving financial responsibility) are also examined in the Annex to this brief. They are unlikely to involve costs of the same order as per capita payments or the "middle ways". There could however be some net cost in compulsory open enrolment, since the cost of keeping some schools open with unfilled places may offset the savings elsewhere. A statutory core curriculum might also require more work by the Inspectorate. But if the meeting thinks some new steps will be necessary, there would be advantage in shifting the debate in these relatively less costly directions.

5. The Prime Minister will now be aware of the general prospects for the Survey, following the talk which you and the Chief Secretary had with her on Friday. You may want to take the opportunity to repeat the point that the solutions on education must be found through using existing funds better, rather than by injecting large new amounts of money. There is also a need, which can only be done in the Survey, to decide priorities between schools and other expenditure programmes (including other parts of education, on which the Secretary of State is also likely to make additional bids).

Points to make

6. On the individual proposals:

(a) The DES interpretation of the core curriculum idea in terms of national syllabuses seems unduly grandiose. Would there not be advantage instead in taking power, as a last resort, to impose the kind of broad core curriculum which DES is now attempting to get by agreement?

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(b) Compulsory open enrolment is worth considering further, but an estimate is needed of its net cost on the system.

(c) Per capita finance has theoretical attractions because of its harnessing of consumer choice. But it would cause great turbulence, and the paper is right in bringing out the large transitional cost. Danger that the ultimate efficiency gains will accrue to teachers' salaries rather than to the consumer.

(d) On devolving decisions, the proposals in the Education Bill should be given a try; but more should be done by DES, or through the Audit Commission, to find authorities already operating good devolved systems and publicise their achievements.

(e) On "middle ways", the proposals involve considerable cost for a fairly marginal benefit: how far would they attract pupils from state schools into the middle way, as opposed to subsidising pupils who would have chosen private education anyway? More needs to be done to restrict the "deadweight" element before these proposals could be viable.

(f) On the Secretary of State's own proposals, see my brief of 11 April. (below)

(g) The next step should be for the Prime Minister's meeting to settle on any options which need study in greater depth, and clarify the objectives and assumptions underlying this future work. The DES should then be asked to work up these options, in full consultation with Treasury, DOE and the Policy Unit, particularly on the costings, and report back within the next 6-8 weeks to a suitable MISC group*, so that Ministers can decide what priority to give to all this in the Survey.

*perhaps with JEST instead of you?

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THE OPTIONS: DETAILED COMMENTS

1. National Core curriculum/syllabus

The DES have set up a rather extreme version of the idea which Ministers discussed at the last meeting, and have then rejected it as unattainable (short of nationalisation of the school system). From my talks with DES and the Policy Unit, I am not sure if DES have correctly interpreted the intention at the last meeting. DES told me that they see a "core curriculum" as a means of raising the standard of the bottom 40%, whereas they had supposed Ministers were primarily concerned with the top 20%, who might benefit more from a national syllabus. But Brian Griffiths has since told me that he thought the last meeting was concerned with the bottom 40%. If so, the DES approach may have made the idea of a core curriculum more difficult than it need be.

2. The progress made so far by agreement (paragraph 4(1) and 5) is pretty limited. The question which the DES do not explore is whether it would help to have some statutory back-up power to prescribe a broad framework for the curriculum, of the kind which they are now trying to establish by agreement under the "Better Schools" policy. They may argue, of course, that with our devolved system (and given the wide scope for interpretation) a core curriculum which was not agreed would not in practice be respected. But it would at least have some declaratory value, and would provide a yardstick against which school governors, HMIs, etc could judge and criticise what was being provided.

3. Compared with the other main options, this should not be costly, although it might produce demands for some more resources in DES HQ, eg for a stronger Inspectorate. If Ministers want to identify some new steps going beyond existing policy, it seems worth investigating further.

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2. Improving Parental choice

4. The Secretary of State explores two possibilities - "compulsory open enrolment", and "per capita finance".

5. Compulsory open enrolment would enable parents to insist on enrolment up to the physical capacity of the school. It would go some way to reinforce parental preference, but there would be scope for argument about the precise numbers which could be physically accommodated in a particular school. The impact on costs is difficult to predict. In theory it could reduce costs if it forced closure of a poor school the LEA was trying to keep open. But on balance it is likely to add to costs since the extra costs in popular schools would not be fully offset by savings in the less popular ones.

6. Per capita finance is a much more radical option. It would make the schools the unit of financial management, competing for the "credits" attaching to their pupils.

7. This should do a great deal more to make the schools responsive to customer choice. The schools would need to be free to manage their affairs so as to respond to that choice, eg in hiring and firing staff, and managing their buildings. This would leave little role for the LEA except in regard to capital spending; and the paper suggests that this anyway could not be left in the hands of hostile LEAs. Capital allocations would be a key element in the whole process: if more parents choose a good school, they could not all actually obtain places unless the school was prepared (and had both the means and the space) to expand.

8. While such a system should in the long run encourage schools to deliver better education, the impact on costs in the transition seems likely to be serious. Paragraph 21 gives some of the reasons. The main point is that the

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schools at present costing less than the average would be likely to spend the "credits" they were given. It would also be difficult to hold the level of the per capita "credit" to the present average cost of the system. The present dispersion of costs is quite wide and some of this may represent genuine differences in circumstances. (I attach as Annex B some figures illustrating this.) There would thus be pressure either to set the "credit" higher than the average, or to supplement it in high cost areas, eg inner city areas with a diverse ethnic mix. All in all, the Secretary of State seems right in predicting expensive levelling up, at least in the short run. This effect might be mitigated if some charging was permissible in the more costly schools, eg up to a stated percentage of the "credit". But it is by no means certain that this could be made to stick if, for example, it turned out to bear hardly on inner city parents and racial minorities. The Home Secretary's comments (his letter of 7 April) are relevant here.

9. Another short-run cost would be the provision of working balances for each school. In principle these should be offset by the lower need for working balances in the LEAs, but the LEAs can use their balances as a pool. Illustratively, even an extra £10,000 per school would be £250 million.

10. There is also an uncertain impact on the pay rates of teachers and other staff. If each school became the negotiating body, this impact might be favourable. If there was still some central negotiation with such a fragmented constituency on the employers' side, it might be even worse than now. There is a risk that, in the turbulence, higher costs ^{would be} ~~are~~ reflected in generally higher salaries rather than better output.

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11. A change of this magnitude would take the lifetime of a Parliament to put in place. It would be so far-reaching that it must be an act of faith whether the eventual improvement would be worth the expected transitional, and maybe permanent, extra costs. The costs relate to some extent to the amount of turbulence created in the system, and might be mitigated, to some extent, if the change could be phased, eg by applying the new regime to only a proportion of schools in each area in the first instance. Phasing might be needed anyway simply because of the practical problems of reestablishing the 20,000 maintained schools as independent entities. This would point to starting with one of the "middle ways" in the first instance, if ways could be found of establishing these cost-effectively, ie without heavy deadweight cost. But on this, see also the comments on item 4 below.

3. Devolving decisions to the level of the school

12. This idea arose partly out of the previous option. If it is treated as a separate option, the Secretary of State draws attention to the extent to which it is already being pursued in the current Education Bill. He regards the arrangements proposed in the Bill as a healthy balance between the various parties, with each acting as a check on the others.

13. These new arrangements are in fact a step forward. As expenditure on books and equipment is to be delegated, any further step would need to involve the teaching side, eg by giving the governors, rather than the LEA, the final word on appointments and dismissals. The first priority, however, is to make sure that the new system does work. The DES might be asked to explore what they, or the Audit Commission, could do to publicise examples where local authorities are devolving responsibility in an imaginative way, and encourage others to do likewise.

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4. Middle ways

14. The Secretary of State suggests either an expansion of the Assisted Places Scheme (APS); or reintroduction of Direct Grant (DG) schools, which he believes could be done by regulation, although legislation would make them more secure.

15. The illustrative calculations in Annex B show that either would be quite costly: around £100 million or more in either case, for a number of pupils which is marginal in relation to the total system - 75,000 secondary pupils, for example, is 2½% of the present secondary pupil population under school leaving age.

16. The question is how cost-effective either proposal would be in securing the objective - of giving parents a wider choice, and providing a bridge between expensive private schooling and free state provision. To do this they would need to draw pupils from the state system who would not otherwise have contemplated, or afforded, private education.

17. The APS scheme does this to some extent, in its present "scholarship" form, although even that does not exclude parents who would have gone for state primary and private secondary education. DG schools probably have a higher risk of deadweight cost, especially as some present private schools were DG schools before. To be cost-effective, the DG scheme needs to be related in some way to pupils transferring from state schools, or to private schools which are providing new places. This would point to restricting either scheme to the secondary level, and continuing to limit the APS scheme to the

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"scholarship" concept. The DES should be asked to do further work on minimising the deadweight effect, and clarifying the costs and benefits, before Ministers are asked to take a final decision on the priority of either proposal in the Survey context.

5. The Secretary of State's proposals

18. The Secretary of State ends by repeating support for the proposals in his earlier paper. I return that paper herewith, and you will also want to have with you my brief on it dated 11 April. Two points should be added:

(a) The Home Secretary's letter of 7 April includes an idea similar to proposal (4) in that paper, ie the creation of Government-maintained schools. This was covered in my brief: the next step is to await the results of the feasibility study which H Committee has already authorised.

(b) Mr Baker's letter of 25 April argues for pursuing the general lines of the Green Paper on Local Government, and in particular he opposes a wholesale extension of specific grants (although he does not object in principle to some well-targetted grants in particular cases). His main point is that too much use of specific grants will blur the link between higher spending on local services and higher community charge, and hence the accountability of the local authority to the local electorate. As he will be present at the meeting, this will be a useful counter-balance to the rather grandiose DES plans for specific grant, which do not seem likely to be effective in achieving their object (paragraphs 23-26 of my brief).

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VARIATION IN UNIT COSTS

The following figures (for 1984-85) give some indication of unit costs per pupil in primary and secondary schools, and the variation by different types of authority:

	<u>Primary</u>	<u>Secondary</u>
England	£ 765	£1090
Outer London	£ 865	£1250
ILEA	£1270	£1945
Met district	£ 765	£1080
Shire counties	£ 710	£1020

2. There are also significant variations around the averages in these categories. For example, primary costs in West Sussex are £660 (shire county average £710) and in Haringay £1155 (outer London average £865). Secondary unit costs in Dorset are £960 (shire county average £1020) and again in Haringay are £1615 (outer London average £1250).

3. Not all of these difference will be reflections of objective need. But in the "grant related expenditure assessments" (GREs), which are meant to provide a measure of each authority's needs for RSG purposes, the element for primary and secondary schools reflects not only pupil numbers but also a number of other variables. The weighting within this element is 86% for pupil numbers and 14% for the other variables, such as sparsity of population, ethnic mix, one-parent families, SB claimants etc.

4. Many of these other variables will be especially significant in the inner city areas with which Mr Hurd is particularly concerned. A system which was driven purely

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by equal per capita grants would tend therefore to bear hardly on such areas. Any allowance for this, either in particular areas or by setting the "credits" rather higher than the average, would however tend to add to the cost of the system.

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From: J Anson
Date: 13 May 1986

CHANCELLOR OF THE EXCHEQUER —

cc
Chief Secretary
Mr Gilmore
Mr Cropper

EDUCATION:MEETING ON 14 MAY

Since I sent you a brief on Sir Keith Joseph's paper, we have received this afternoon the attached note by the Audit Commission summarising a report to be published by them later this week on Better Management of Secondary Education. You may like to have a copy by you in case it is referred to by others.

2. The general message will be helpful: that secondary schools are not being managed effectively, and that there are potential value for money savings of £500-700 million a year by the early 1990s. They argue that this could be achieved by a much more vigorous programme of closures, helped by a streamlined consultation procedure, better manpower planning and voluntary severance arrangements. They also recommend replacing the Burnham machinery by some new flexible pay machinery.

3. There is however a sting in the tail. To facilitate the closures they recommend capital expenditure of £2 billion over 4-5 years, which they hope would be financed by allowing the use of receipts from selling under-utilised buildings to be exempted from local authority capital controls. They also recommend that the government should encourage voluntary redundancies (apparently by giving some special dispensation to severance payments within the RSG system).

|| It's Anson's
you

PERSONAL AND CONFIDENTIAL

4. Clearly this report cannot be analysed in the time available before the Prime Minister's meeting. The Audit Commission's suggestions will however need to be properly examined as part of any follow-up work commissioned by the meeting. In the meantime, I am asking HE to let you and the Chief Secretary have some early internal comments on the report from a Treasury standpoint.



J ANSON

Audit Commission

REVIEW

The Audit Commission
for Local Authorities
in England and Wales

May 1986

Towards Better Management of Secondary Education

There are disturbing indications that teaching costs – and teachers – are not being managed effectively. Radical reform is overdue to prevent a critical situation deteriorating further. But reform is bound to be costly. Falling school rolls present an important opportunity to re-direct investment on a very considerable scale – £500 to £700 million a year by the early 1990s – to improve educational standards instead of teaching 'empty' desks and maintaining under-utilised buildings.

Major changes are essential if this opportunity is to be grasped. At the local education authority (LEA) level the reorganisation of secondary schools must be accelerated. On present plans the equivalent of around 1,000 schools will be standing completely empty within five years, at a cost of some £3,500 per secondary teacher. LEAs should undertake better manpower planning to manage the number and mix of teachers in line with agreed curricula for their schools. The present pupil:teacher ratio (PTR) system of allocating teachers to schools needs to be changed. The Commission proposes in its place an activity-led staffing approach, to reflect the curriculum to be delivered. As much authority as possible should be delegated to the local, i.e. school, level. Authorities should do more by way of strengthening selection and training procedures to enable head teachers to manage their schools effectively.

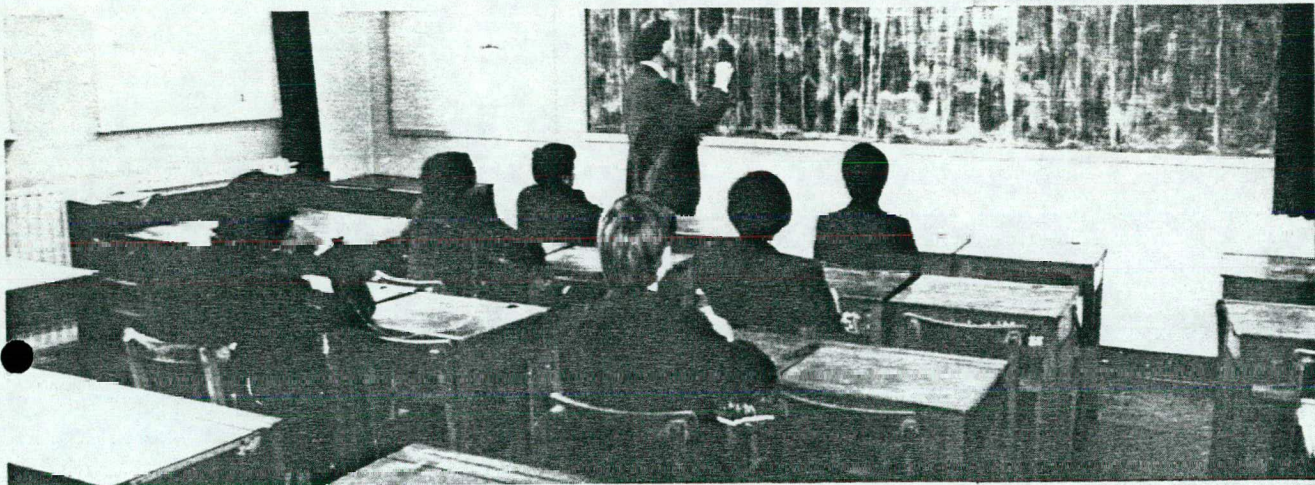
All these steps can be taken by LEAs now. But without more radical changes in the way the education service is managed, prospects for action by LEAs remain poor. So the Commission proposes a package of further measures. It recommends radical streamlining of the consultation procedures which today serve to prevent or delay local reorganisations; the Secretary of State's involvement in school reorganisation plans should be limited. New arrangements are needed for negotiating teachers' pay and conditions and to provide more local flexibility. Receipts from the sale of school land and buildings should be exempted from controls on capital spending. The system for distributing grant needs reforming; LEAs should be encouraged to proceed with school reorganisation, not penalised for taking often painful action.

Unless action is taken swiftly before rolls begin to rise again in the 1990s, *time will run out*. Some authorities have taken the difficult steps to close schools despite the problems posed but these are the exceptions. Auditors' reports suggest that only one LEA in four has agreed plans in place for dealing with the situation; not far short of half the LEAs appear, in effect, to be ignoring the problem in the hope that it will go away – or at least not become an electoral liability too soon. In an average LEA ten secondary schools could be closed over the next four years – and will need to be if the waste inherent in restricted curricula and/or under-utilised teachers and buildings is to be avoided. This is more than twice the current closure rate.

The report

Towards Better Management of Secondary Education is the outcome of a study carried out between November 1984 and October 1985 by a team of Audit Commission staff, two deputy chief education officers seconded part-time for the period, a secondary school head also seconded, and a university lecturer in local government studies. Auditors' reports to LEAs accounting for over half of the total of school rolls were reviewed, to determine how authorities were responding to falling rolls. Fieldwork was carried out in 12 participating authorities consisting of two outer London boroughs, three metropolitan districts and seven shire counties, selected to give a variety of differing characteristics. Within these 12, 74 schools were visited as well as the education departments.

The conclusions have been discussed with a wide cross-section of the interests involved and the Commission acknowledges gratefully the co-operation of those who participated in the study.



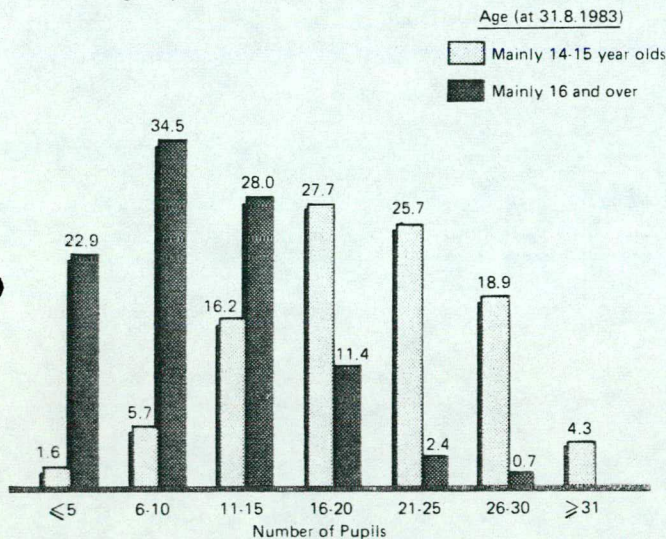
An agenda for LEAs

Authorities' reports to LEAs prepared in 1985 indicate that progress in reorganising schools has been slow: almost two thirds have made no strategic response to the fall in rolls which has been under way for five years or more. As far as possible authorities should respond to the opportunity presented by reducing the number of schools and teachers at a rate which maintains current curricula with reduced total expenditure and unit costs kept at current levels. Experience shows that given the local will and a systematic approach, progress is possible without compulsory redundancies.

Review plans for avoiding 'empty chairs'

This is the first step and should be undertaken by an inter-departmental working party led by a senior officer from the education department but including officers from the property and finance functions. The working party should identify the nature and scale of the opportunities for the authority as a whole, and determine whether existing plans are adequate to the needs of the local situation or, if not, what needs to be done.

ENGLISH SECONDARY SCHOOL CLASS SIZES IN JANUARY 1984
% classes taught by one teacher



Source: Department of Education and Science, 1985

Abandon pupil : teacher ratios (PTRs) as a basis for staffing decisions

Staffing levels are normally based on the PTR but in practice there is a wide variation in PTR among authorities and from school to school within an LEA. This approach has resulted in very small and uneconomic class size in some cases. Additionally manpower planning for the future becomes more difficult with a ratio-based system.

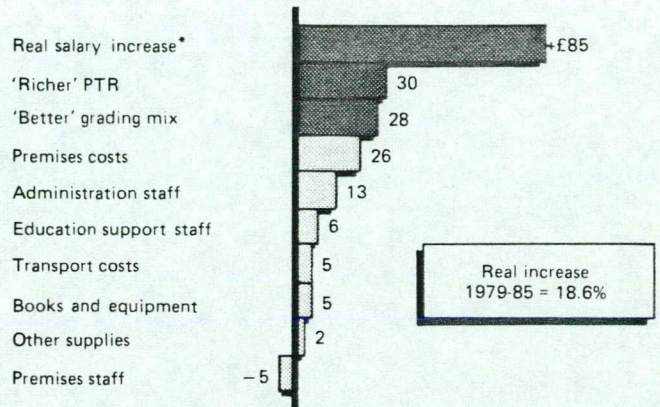
Some LEAs have responded to the shortcomings of the PTR as a staffing method by moving to curriculum-led staffing – this represents a considerable improvement over PTR-based methods but it has not been widely adopted. In the Commission's view, within the overall number of teachers determined by the LEA, each school's teaching complement should be decided by reference to teachers' activities both inside and outside the classroom, an approach described as activity-led staffing (ALS). This should ensure that staffing levels are compatible with the agreed curriculum.

Pupil : teacher ratios in secondary schools January 1985

	Lowest	Highest	Average
Shire counties	15.0:1	18.1	16.4
Metropolitan districts	13.8	16.8	15.5
Outer London boroughs	11.3	16.9	13.9

SOURCE OF REAL INCREASE (ABOVE RPI) IN EDUCATION COSTS PER SECONDARY PUPIL 1979-1985

£ at September 30, 1985 prices



* Assumes 6% increase for 1985-86

Source: Audit Commission analysis of CIPFA Education Statistics, 1985-86 estimates

Implement staff complements in individual schools

Every authority should make full use of means available to ensure that it has the teacher staffing that has been determined. There is a range of measures in addition to natural wastage (i.e. normal retirement and resignations). In order of desirability these are:

- Redeployment of teachers from one school to another. The operation of redeployment varies among LEAs. Because of problems, including those connected with resignation dates and a mistaken stigma attached to redeployed teachers, few teachers are redeployed. When these are resolved and redeployment becomes more common practice, much of its present unpopularity can disappear.
- More use of part-time teachers, particularly by the adoption of a 'stepping down' scheme for those approaching retirement. A move to part-time work does not penalise a teacher's pension.
- Recruitment from as broad a field as possible. The 'ring fence' policy widely operated by many LEAs restricts the choice of candidates. The present restriction on resignation dates tends to produce a flurry of resignations, impairing the quality of recruitment by the haste of advertising and selection.
- Early retirement. While serving to reduce teachers' numbers and to improve promotion prospects for younger teachers, the costs of this cancel out some of the salary savings.
- Voluntary severance. This can be more economic than early retirement but can have the effect of wasting the investment in a teacher's skills.



The school library in an outer London secondary school

Increase delegation to schools

The Commission's earlier report on non-teaching costs in secondary schools proposed increased delegation of authority and responsibility to the school level. Careful preparation is essential if increased delegation is to succeed. For head teachers and governors to manage the resources allocated to them competently there must be:

- *Greater attention to the selection of secondary school head teachers;* recent research confirms that the way in which a school is managed by its head teacher and governors has direct (and measurable) effect on pupils' progress. So the appointment of the right head for every school is critical. However, the selection process for head teachers has serious weaknesses according to a recent study: lack of technical assessment; absence of peer group assessment; variations of criteria against which candidates were being selected; unstructured interviews. There is scope for improving the selection process and ensuring that all candidates are assessed according to the same criteria and using the same methods.

- *More and better management training.* Until they become deputy heads, teachers are not likely to have had any management training at all; as deputy heads they will be expected to learn by observation – as the present head did before them. This is evidently unsatisfactory and the Commission suggests that completion of appropriate management courses should be an essential requirement for an appointment as deputy head.

More investment in in-service training

Recent estimates suggest a shortage of 4,000 mathematics graduates in teaching and 1,600 physics graduates. So long as this shortfall continues, the gap must be narrowed through in-service training, including re-training in new subjects. The match between teachers' qualifications and the subjects they are required to teach has been analysed. The table shows the extent of the mismatch.

Analysis of teacher mismatch

	% Teachers teaching subject for which they had no qualification		% Tuition in a subject provided by teachers with no qualification	
	1977	1984	1977	1984
English	30%	29	17%	14
Physical education	48	43	13	14
Mathematics	29	26	15	13
History	22	24	8	8
Geography	23	22	9	7
Religious education	59	58	29	24
Art/light craft	26	26	10	6
French	16	19	9	8
Biology	16	17	9	9
Physics	33	30	22	18
Chemistry	21	20	10	9
Music	23	25	6	6
Craft, design and technology	N/A	N/A	15	13
Home economics	N/A	N/A	6	6

Source: DES supplied data

There are only small signs of improvement; re-training of teachers to overcome the shortfall is therefore necessary and against this background the amount of in-service training provided for most teachers is inadequate. What little they do receive is often unrelated to the needs of the education service. Schools will require some scope to initiate training to meet needs which heads and senior staff identify.

More radical measures

The performance of LEAs in adapting to falling rolls has been poor. Vested interests combine to frustrate the type of changes proposed. Pupils' interests are subordinated to those of local politics. Necessary school closures are prevented – or at minimum delayed – for two to three years. As a result, vital opportunities are being missed; and prospects for implementing the recommended changes will remain poor unless radical alterations are made to the existing management framework for the education service.

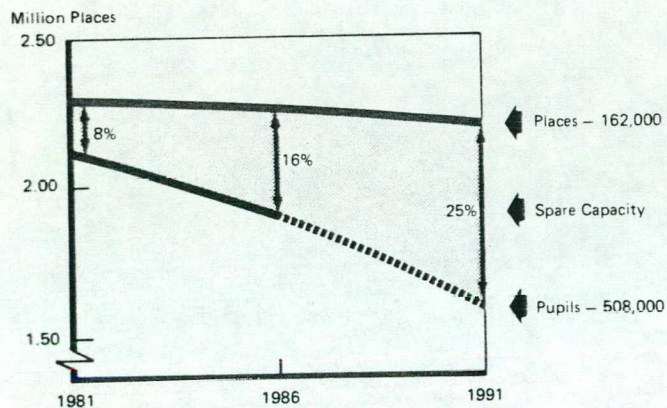
Need for streamlined reorganisation process

The process for deciding the closure of secondary schools is long and complex. The present consultation procedures are specified in legislation framed to cope with problems different from today. Steps need to be considered to facilitate the process:

- Streamlining membership of local education committees to ensure that, for example, not more than one third of the members of the parent authority sit on the education committee.
- Making the objection process more representative of local opinion; only ten parents/electors are currently needed to object before the Secretary of State's approval for reorganisation schemes is required.
- Further clarification of the Secretary of State's criteria in considering such schemes.
- Greater inducements to local authorities to accept closures, e.g. capital grants.

PLANNED ADJUSTMENTS TO SECONDARY SCHOOL CAPACITY

LEA plans as at mid-1985



Source: Audit Commission analysis of Auditors' reports, 1986

Expenditure control systems – a disincentive

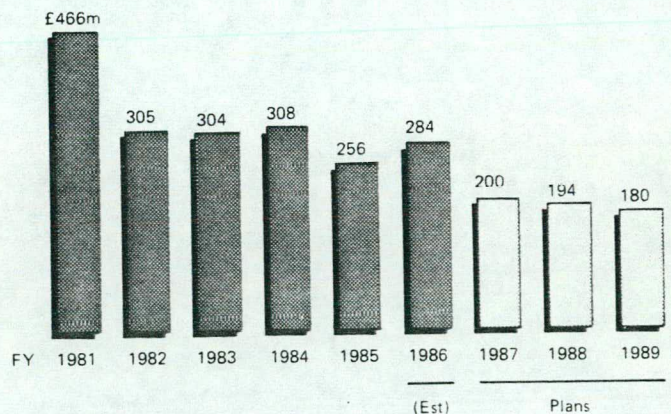
The grant distribution machinery acts as a deterrent for authorities facing falls in school rolls to invest in reorganisation. The table shows the cost of offering voluntary redundancy to 100 teachers at a cost of £20,000 per teacher.

Cost of voluntary redundancy 100 teachers in selected authorities £ million

Authority	£m
Shropshire	2.8
Liverpool	2.9
Hampshire	3.2
Cleveland	3.5
Manchester	3.7
Wolverhampton	3.8
Berkshire	4.0
Hounslow	5.8
[Base cost 100 x £20,000]	2.0]

Many LEAs have capitalised redundancy costs. But the system for controlling capital spending, too, is in need of reform. Capital expenditure of some £2 billion will be needed over the next 4-5 years if the potential closures are to take place – more than double the level now planned by government. To bridge the gap without a commensurate increase in borrowing, LEAs must be encouraged to dispose of under-utilised buildings and recycle some receipts into the schools that will remain. So receipts from the sale of school land and buildings must be exempted from the controls limiting authorities' capital spending.

CAPITAL EXPENDITURE ON SCHOOLS* IN ENGLAND 1980-1989 £m, at 1985 prices



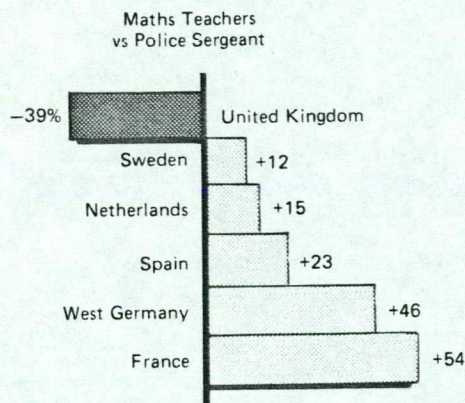
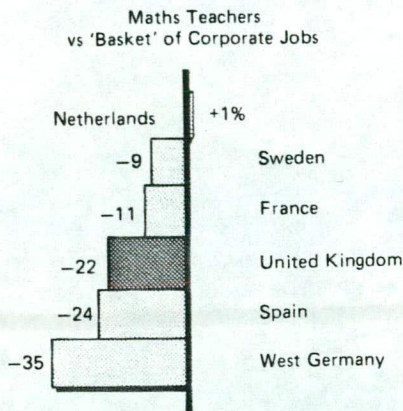
* Primary and Secondary Schools

Source: Audit Commission analysis of The Government's Expenditure Plans, 1985-86 to 1987-88 (Table 3.10)



Secondary school annexe with classrooms in current use.

PAY OF EXPERIENCED MATHS TEACHERS*, 1985
% Difference from Other Occupations



* In a Provincial town, with 5 years experience

Source: Audit Commission analysis of information provided by Hay-MSL, March 1986

New negotiating machinery

The difficulties experienced in reaching a teachers' pay settlement for 1985, together with the associated disagreements about conditions of service, underline the serious problem over the pay structure for teachers. Other factors serve to emphasise the need for fundamental changes:

- Teachers cannot benefit directly from local reorganisations – even though their goodwill is important to carrying them through.
- Salaries of teachers in the UK are generally lower than those of comparable professions.
- There is a particular shortage of teachers in mathematics and physics.
- Other than through promotion, teachers' classroom performance is not reflected in the pay structure.
- Aspects of teachers' conditions of service that can only sensibly be managed locally are resulting in considerable problems or disputes at the national level, e.g. performance assessment, arranging cover for absence, lunchtime supervision.

In the Commission's view, the Burnham system has outlived its usefulness, is itself a source of some of the present management problems, blurs accountability and results in distortion of management structures within schools. The most serious weakness of the present arrangements is that they entail separate discussion of the inter-related issues of pay and conditions of service. This cannot be sensible; the Commission urges the establishment of machinery which permits the discussion of pay and conditions in the same forum. In addition, reforms are needed in the following two areas:

- *More local flexibility* within a national framework to agree assessment arrangements and ways of rewarding superior performance, and to determine arrangements for recruiting teachers for shortage subjects, managing teacher absence and providing lunchtime supervision.
- *Less cumbersome and bureaucratic national machinery.* At present the Burnham Primary and Secondary Committee has 55 members, comprising a management panel of 27 and a teachers' panel of 28. Complex and mechanistic, it is very cumbersome. As such, it inevitably produces complex agreements based on the lowest common denominator of the various interests involved and allowing minimal local flexibility. The negotiating body should be much smaller and comprise only representatives of employers and employees.

COMPOSITION OF BURNHAM PANELS

	NUMBER OF REPRESENTATIVES
MANAGEMENT PANEL	
Association of County Councils	13
Association of Metropolitan Authorities	10
Welsh Joint Education Committee	2
Department of Education and Science	2
TEACHERS' PANEL	
NUT	13
NAS/UWT	7
NAHT	2
AMMA	4
SHA	1
PAT	1

The way ahead

The problems are considerable. But falling school rolls provide a vital opportunity to devote more resources to teaching and less to maintaining, cleaning and heating buildings. Time is short. The 'window of opportunity' will begin to close in the early 1990s, as secondary school rolls stabilise and then begin to rise. There is therefore no time to lose. However, the prospects for closing schools on the scale required – of perhaps one in five – are poor under present circumstances. As many as 1,000 schools will need to be closed over the next four to five years, and up to £2 billion in new capital invested in the schools that remain.

In the Commission's view it would be nothing short of tragic if this one-off opportunity is lost through managerial incompetence or lack of will locally or at the national level.

Improvements possible – but only if urgent action is taken

Action by authorities

LEAs need to accelerate the reorganisation of secondary schools by:

- Re-examining their strategies on school closures in the light of falling rolls, taking account of the upturn in rolls in their investments in buildings or equipment.
- Ensuring that every school's complement of teachers is compatible with a level of curricular provision agreed by the authority.
- Improving local manpower planning for teachers, thereby minimising the need for early retirement or voluntary redundancies.
- Delegating as much responsibility as possible to heads and governing bodies, along with the authority to discharge it.
- Agreeing local arrangements for assessing schools' and teachers' performance.
- Developing local strategies for recruiting teachers for shortage subjects, managing teacher absence and providing cover for lunchtime supervision.
- Jointly entering into negotiations with teachers' associations to establish a teachers' year which is longer than the pupils'.

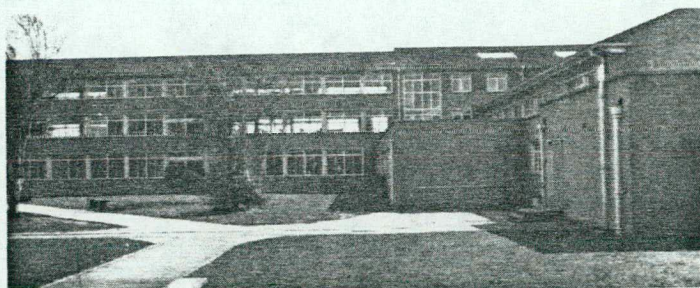
Action by central government

Without fundamental changes in the way the education service is managed, some involving legislation, prospects for implementing the above are faint. To help LEAs manage a difficult local situation better, government should:

- Promote new arrangements for negotiating teachers' pay and conditions together.
- Encourage and enable more local flexibility over teachers' pay and conditions, within a nationally agreed framework.
- Ensure that the grant distribution arrangements for controlling capital expenditure do not deter authorities wishing to invest in secondary school reorganisation.
- Limit the Secretary of State's involvement in reviewing school reorganisation plans to the most controversial proposals.
- Provide incentives to local communities to accept initially painful reorganisation proposals.
- Enable LEAs to have the same powers regarding voluntary schools as they do with other secondary schools.
- Empower LEAs to offer voluntary severance to teachers.

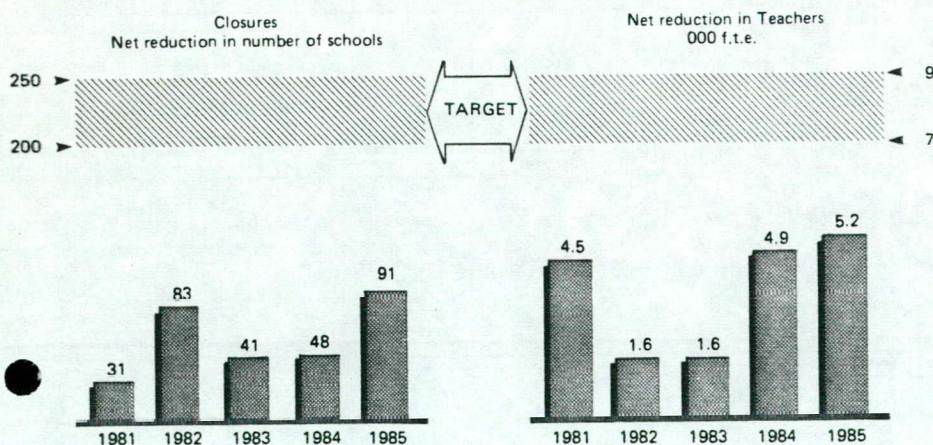
Action by auditors

Auditors will be working with local authorities in the coming 18 months to help ensure that appropriate local action is in hand. Every LEA will receive a report on the extent to which the local education service is taking advantage of the opportunities presented by falling rolls to improve secondary education – to the benefit of pupils, teachers and those who pay for the service



Former secondary school being re-used as an adult education institute, an in-service centre for teachers, and a divisional headquarters for the fire brigade. The playing fields are intended for community use.

SECONDARY SCHOOLS IN ENGLAND AND WALES



Source: CIPFA Education Statistics, 1985-86 Estimate Tables 3.1 and 3.3
Audit Commission Analysis (targets)

If you want to know more . . .

Complimentary copies of the full report *Towards Better Management of Secondary Education* have been sent to each authority. Further copies can be obtained from HMSO, price £5.90 (to cover printing and distribution costs only).



FROM: MRS R LOMAX
 DATE: 13 JUNE 1986

*1 Copy
2 para*

MR S KELLY

cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State
 Sir P Middleton
 Mr F E R Butler
 Mr Anson
 Mr Gilmore
 Mr Scholar
 Miss O'Mara
 Mr Culpin
 Mr Cropper
 Mr Ross Goobey
 Mr Tyrie

INTERNATIONAL COMPARISONS OF EDUCATION SPENDING

The Chancellor was grateful for your minute of 13 June. He has now despatched a slightly amended version of the letter to Mr Baker.

2. He would also like to redraft the suggested line to take as follows:

"The figures quoted in the debate on 3 June, although used in good faith based on information published earlier by DES Ministers turn out to have been wrongly calculated. Corrected figures show that, based on those countries own returns, public expenditure per pupil on education in the UK is broadly the same as in France and some 5% more than in Japan, but 15% less than in Germany. This means current expenditure on education as a proportion of GNP, on the basis of the latest available information for each country, is higher in the UK than in any of those other countries - 4.9% compared to 4.7% in France, 4.1% in Germany and 3.9% in Japan.



The essential point remains that the level of spending on education is not reflected in parents' satisfaction with the quality of service. We therefore need to find ways to improve the value for money from that expenditure."

3. The Chancellor would be grateful if you and EB would check this revised line to take very carefully for accuracy.
4. Incidentally, the Chancellor recalls a recent major Economist article on Japan, which independently asserted that the Japanese spend less on education than we do.

A handwritten signature in black ink, appearing to be "RL".

RACHEL LOMAX

cc PS/Chief Secretary
 Sir P Middleton
 Mr Scholar
 Mr Culpin
 Miss O'Mara
 Mr Burr
 Mr Gilmore
 Mr S Kelly
 Mr Tyrie
 Mr Cropper

RESTRICTED



Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

13 June 1986 *yes*

The Rt Hon Kenneth Baker MP
 Secretary of State for Education and Science
 Elizabeth House
 York Road
 LONDON SE1 7H

A handwritten signature in cursive script, appearing to read 'Ken Baker'.

EDUCATION SPENDING: INTERNATIONAL COMPARISONS

Thank you for your letter of 13 June.

I must say that I find this episode quite appalling. First, it turns out that an elementary howler was made in the calculations used in Bob Dunn's reply to Austin Mitchell's PQ on 13 May. That was bad enough. But the presentation of the revised figures and the timing of their release were also extraordinarily inept. And it occurred without their being cleared here, in spite of repeated and specific undertakings, both at working level and from your Private Office to mine, that they would be.

We must now do everything possible to limit the damage to our credibility from this entirely avoidable catalogue of errors. Our officials are in touch about how any comparisons should best be put and the issue is all too likely to arise at Treasury First Order Questions next Thursday.

I hope we can both expect better service than this in putting our policies across.

A handwritten signature in cursive script, appearing to read 'Nigel Lawson'.

NIGEL LAWSON

PERSONAL AND CONFIDENTIAL

Buro

From: B T GILMORE
Date: 24 June 1986

CHIEF SECRETARY

cc
Chancellor
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Kemp
Mr Jameson
Mr Scholar
Mr Turnbull
Mr Gilhooly
Mr Gray
Mr Pirie
Mr A C S Allan
Mr Halligan
Mr Kelly

EDUCATION : SPECIFIC GRANTS

I noted in my minute of 20 June (not to all) the main objections to the proposals in the paper which the Secretary of State sent you with his letter of 19 June: - I think this is still with you.

(a) an expensive way to achieve little if any influence;

(b) an entirely open-ended power, the hasty treatment of which cuts across the Government's consideration of the basic financial relationship with local authorities, generally in the Green Paper and specifically in the consideration being given to the future policies for education.

2. Discussion with officials of DES, DOE and the Scottish and Welsh Offices yesterday produced little that was new. It confirmed that the "wide open" proposal is specifically Mr Baker's own, and the draft paper is not open to interdepartmental variation (though his officials will invite him to consider adding a passage about value for money). It was also confirmed that no mechanism is being proposed to exert downward pressure. Indeed, any authority which was refused specific grant would still qualify for block grant on its spending on unacceptable policies (they are not prepared to contemplate the theoretical possibility of disallowing such expenditure). DES argue that many

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on most such authorities are already on negative marginal grant, so that withholding specific grant would push the cost of their unacceptable spending onto rates. That line of argument, of course, begs the question whether pressure on the rates would increase the incentive on local authorities to cooperate, or merely bring more pressure to bear on the central government to give the money anyway. DES officials also said that the Secretary of State's immediate intention for the use of such a power is restricted to "targetting" the funding of any additional pay coming out of the ACAS exercise. His reason for seeking such an open-ended power is simply to establish room for manoeuvre for any developments thereafter.

3. As to timing, the Commons Committee Stage of the current Education Bill is expected to end on 10 or 15 July. He would like to announce his intentions between then and his meeting with the local education authorities on 18 July, and to introduce the measure at the beginning of Commons Report Stage in the week beginning 21 July (though this may slip to the autumn).

4. Advanced Further Education is a longer-term issue, and its introduction here is something of a red herring. The present pooling arrangements are unsatisfactory. The position is held for the time being, but cannot persist into the new local government finance regime. Mr Jameson's Working Group on Specific Grant will recommend that future arrangements should work through needs assessments not through specific grant (DES dissenting). Even if the Government did decide to deal with the problem by way of specific grant, an appropriate time to introduce such a grant would be at the same time as the new regime.

5. I understand the next meeting of MISC 122 has been arranged for 10.30am on Wednesday, 2 July. Although its terms of reference do not make this an entirely suitable committee to take such a wide-ranging proposal as the Secretary of State now brings forward, the Cabinet Office (Mr Unwin) feel that the trend of MISC 122 discussion makes it essential for the subject of specific grant to be taken next by MISC 122, and that the membership is adequate. In any case the proposal needs to be opposed on merits, not just procedurally. We therefore recommend that you set out your objections to the proposal in Mr Baker's own paper. I attach a draft reply for this purpose.

6. If the proposal is taken further (on the grounds that something that can be called targetting is needed and more effective powers for central government are ruled out) the most important element of a fall-back position will be to put a limit on the amount of expenditure that could be grant-aided. At first sight, simply raising the present 1 per cent limit on specific grant to 5 per cent would leave room for "targetting" the £1¼bn (and more in the early years). We will deal with that in briefing.

7. This advice is agreed between HE, LG, GEP and Pay.



B T GILMORE

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DRAFT LETTER FROM : THE CHIEF SECRETARY

TO : The Secretary of State for Education and Science

SPECIFIC GRANTS

Thank you for your letter of 19 June, enclosing a draft paper about greater use of specific grants for education.

I cannot agree to your proposals, and I enclose a passage for inclusion in your paper setting out my reasons.

*Best omitted
5/76* [Your remit from MISC 122 was to circulate proposals "on how greater use might be made of specific grants" to influence local authorities. Your paper says very little about how greater use might be made of specific grants to influence local authorities, but mainly proposes to take an entirely open-ended power to use specific grant for such purposes as may emerge. Since this amounts to a basic change in the financial relationship between central and local government it seems to me that it needs to be considered both more deliberately than you propose and in the context of our policies for local government finance (following the Green Paper) and of our basic relationship with the local authorities over education ^{which is} (being considered separately in the Prime Minister's group).]

I am copying this letter and enclosure to Nick Ridley, Malcolm Rifkind and Nick Edwards; and to Sir Robert Armstrong.

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DRAFT

The Chief Secretary notes that the Secretary of State does not state what is to be achieved by his proposal, how it is to be measured, by when and at what cost. Little indication is given of the use that would be made of what amounts to an open-ended power. There is no indication how, if at all, specific grant could be used to exert downward pressure on areas of spending which the Government thought wasteful. Indeed he understands that it is proposed that authorities which failed to secure specific grant by reason of unsatisfactory policies would continue to qualify for rate support grant on the relevant expenditure as now.

2. The Chief Secretary believes that extensive further use of specific grant for education would increase local authority expenditure overall, because it would subsidise some forms of expenditure without adequate pressure for off-setting savings elsewhere. The open-ended ^{power} ~~provision~~ proposed would also increase the tendency of local authorities to seek to transfer to the Government the cost of activities for which they themselves should accept responsibility, and to blame ^{if unsuccessful} ~~the~~ Government ^{provision} for their own shortcomings. And it would increase pressure for similar treatment for other services. The effect of these pressures would be to undermine the block grant system and the clearer structure of accountability on which the Government's proposals for the future of local government finance are based. He does not believe the proposal would provide effective sanctions for the enforcement of contracts, or for securing better value from local authorities for the money spent, to set against these costs. Their effective administration would involve the Government in detailed and expensive argument case by case, with an obvious risk of extensive litigation. To introduce such an open-ended

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and sweeping change in the relationship between central and local government would pre-empt the consideration being given to the underlying relationship between central and local government both in financial matters generally following the Green Paper, and in relation to more effective educational policies in particular. Tacking such a controversial change in haste onto the current Education Bill seems as likely to produce Parliamentary difficulties as more considered measures. And an immediate indication of such an open-ended change could be read as a blank cheque for the ACAS (and ~~M~~ain) exercises.

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ppp

FROM: SIR PETER MIDDLETON

DATE: 28 July 1986

CHANCELLOR

EDUCATION: CURRENT ISSUES

*(As per 22 June 10.)
Per fix mtg. Mr. P.M. I understand for
P.M. that Mr. Anderson was
going to do this
paper. What
has happened?*

I promised you a short assessment of current issues in education. Mr Gilmore has prepared the attached note.

2. It concentrates on the main issues and is not intended to be exhaustive either in length or coverage. The position on teachers pay has moved on and is summarised in Mr Gilhooly's note of today. You will also be aware of the CPC document "save our schools". A discussion would be very useful to us so that we can be sure of our ground in the weeks ahead.

in folder behind

missed

Ch

P E MIDDLETON

Now attached, in separate folder: "Save our Schools"

AMK

EDUCATION : CURRENT ISSUES

This paper surveys the Treasury interest in the main issues in publicly funded education and training under consideration by Ministers.

2. Annex A sets out the Government's objectives in the convenient form of the departmental objectives of DES.

3. Annex B sets out the relevant public expenditure of DES and DEm/MSD.

4. Annexes C-G summarise the state of play on five main issues.

5. Overall, the Treasury's objectives are:

(a) to contain total public expenditure on education and training;

(b) to secure better value for it; in particular -

(c) to improve the contribution of education and training to a skilled and flexible workforce.

6. The first objective is under pressure, with strong lobbies pressing for higher funding and DES in a permissive mood towards these pressures. The main strength of the Treasury position is the relatively high provision, both historically and internationally (if increased spending were the key to better quality it should have produced it). Thus, UK Government spending on education as a proportion of GNP (5.2 per cent) is higher than either France (5.1 per cent) or Germany (4.6 per cent). There are large differences in spending per pupil by different authorities, with ILEA spending £1945 per secondary pupil compared with an average in metropolitan districts of £1080. Audit Commission reports have pointed to potential savings in education spending of £750-1,000m a year if all authorities perform at the level of the best. Another strength may be the widespread dissatisfaction with the results achieved, but this depends on whether dissatisfaction is directed towards the local authorities, universities and schools themselves - and so reinforces government policies for better value - or toward the central government as added

pressure for more funding. The main weaknesses of the Treasury position are the real-world constraints on the speed at which existing expenditure can be redeployed (including the strengths of the lobbies and the instincts and skills of existing teachers); public expectations (while schools are more generously funded than before, there is a widespread sense that they are run down); and the impact of industrial action (resulting in political pressure for "peace in our time").

7. On value for money, the objectives for improving quality at Annex A are sensible, and not particularly at issue. But there are issues in dispute about how best to pursue them. On present policies, progress is likely to be slow, and could also be expensive. One major reason for this is the underlying confusion of responsibilities. In particular the central government cannot wash its hands of responsibility for the quality of education or the levels of public expenditure public service pay and the rates, and yet has little control or influence over them. While the consideration of "radical options" is not concluded, Ministers have decided against pursuing those options which involve radical changes in responsibility (Annex D), leaving the Government with major problems about the instruments available to it to pursue its objectives (Annex E). While radical changes in responsibility would certainly be expensive in the short-term, it might be argued that they would provide better value for money in the middle to long term, and a quicker and surer route towards the Government's objectives.

8. Underlying the choice between particular options is a more basic choice of which line of sharper accountability - to the local electorate, to central government or to the consumer - will best spur the producers to provide better education.

9. The logic of the Treasury objectives points to a National Education Service (NES). That is impracticable for the time being. One policy for the Treasury therefore would be to minimise the cost of acceptable marginal change and avoid structural change until the NES can be brought onto the agenda.

10. But will NES be a practical option at any time in the foreseeable future? It would cut across the Green Paper approach to local

hvr
Walter

government finance - indeed, it would seriously undermine the whole structure of local government. And the instinct against the control of education at national level is deep, durable and linked with civil liberties. If the Treasury objectives require more radical government policies, it might be preferable to press for an alternative on the following lines:

J.S. 1/2/72

(a) a clearer separation between central and local powers/responsibilities (aligning with Mr Tebbit's contractual approach?);

(b) possibly changes to improve the competence and responsibility of local authorities (the idea of single-service elected education authorities might be worth reviving on this sort of approach);

(c) reinforcing the policy of increasing the influence of those who operate at the level of the individual school (head teachers, governors and above all parents).

11. Substantial changes of this sort would no doubt have transitional costs. It is not clear that they would have many allies. If the Treasury wishes to throw its weight behind this or some other more radical approach to the question of the instruments and pace of change, it will be necessary to bring "radical options" back to the top of the agenda and secure a firm remit to DES to work up an alternative to the Secretary of State's own preferred approach, which amounts to marginal change on the existing structure.

12. If the Treasury does not decide to throw its weight behind a more radical approach we continue with the existing policy - to accept and support the DES objectives as targets; but to insist on (and secure wider understanding of) the point that the overall funding of education and training is broadly adequate and the basic problem is one of management not of funding; that responsibility for progress depends first and foremost on real efforts and a real commitment to redeploy resources within existing totals, and that there must be sticks as well as carrots in the relationship between provision and performance.

MINISTERIAL PRIORITIES REVIEW**STATEMENT OF OBJECTIVES**

Main Aim : To improve standards throughout the education service and to use more effectively the substantial resources available.

(a) Schools

1. The main aim is to implement the policies set out in the White Paper "Better Schools" (Cmnd 9469), in particular to secure greater clarity about the objectives and content of the curriculum so as to promote understanding and skills as well as knowledge, strengthen the practical and technical elements of the curriculum, while maintaining breadth and balance, foster the application of what is learnt to real problems and situations, and stretch pupils of all abilities; to continue to improve, where practicable, provision for children with special educational needs; to reform the examination system and improve assessment, in particular through the introduction of the GCSE and the development of records of achievement (as well as through the planned AS levels); to secure also the implementation of further targets for the removal of school places; after the enactment of the Education Bill now before Parliament, to implement the reform of school governing bodies to give parents more responsibility and influence and to enhance the powers of governing bodies; and to ensure as far as possible that general lessons from HMI Reports are acted upon by LEAs and schools.

(b) Teachers

2. The main objectives are to provide for a sufficient number of teachers suitably trained to meet demands arising from agreed policies for the curriculum while securing a continuing reduction in the overall size of the teacher

force as school rolls fall; to tackle, in particular, the problem of shortages of teachers in certain subjects; to promote the deployment of teachers so as to match the requirements as the pattern of schools changes; and to improve the quality of teaching through more rigorous teacher training (including in-service training), through the appraisal of teacher performance, through more effective selection of teachers, through the reform of the teachers' pay structure and conditions of service; and through exploiting relevant surveys and reports, in particular from the APU. A further objective is to develop more purposeful in-service training for teachers on the basis of a new system of specific grants, subject to the enactment of the Education Bill.

(c) Non-advanced Further Education

3. The general aim is to increase the responsiveness of the service to the needs of employers whilst providing a sound education for young people and adults and securing improved use of resources. Key objectives are to assess and take action response to the current review of vocational qualifications and to secure a significant tightening of staff student ratios in line with Audit Commission recommendations and in the light of work with the local authority associations on a joint study of efficiency. In the youth service, the objective is to develop policies for meeting the widely varying needs of young people through the work of the recently established National Advisory Council for the Youth Service and in other ways.

(d) Higher Education

4. The general aim is to raise quality and standards and, while preserving the full breadth of education provision, to make it more responsive to the needs of the economy. In pursuing this broad objective, the intention will be to maintain the availability of opportunity to study in higher education for those able to benefit, and to pursue value for money, including a more selective approach to the funding of research. Specific objectives include, securing

overall tighter staffing ratios in public sector higher education, securing agreement on the follow-up to the Jarratt Report, improving the system for financing the universities in the light of the recommendations of the Croham Report on the UGC, monitoring progress on the implementation of the efficiency study on the Open University, and implementing the decisions taken by the Government in the light of the Lindop Report on academic standards and validation in the public sector of higher education.

(e) Adult and Continuing Education

5. The main objective is to exploit the resources of higher and further education for improving the competitiveness of industry and commerce, in particular by expanding continuing education and training for updating the national workforce at all levels.

(f) Science

6. The general aim is to maintain and enhance the strength and quality of the science base in higher education and the Research Councils. The main objectives are to secure greater concentration and selectivity of research activities; closer and better working with industry and commerce; more funding from private sector sources; better management yielding greater value for money; increased flexibility enabling faster response to new scientific opportunities; where possible without loss of quality to increase the amount of research done in collaboration with other countries; and by all these means to strengthen the knowledge and skills of the United Kingdom in science and technology, and improve the efficiency, competitiveness and innovative capacity of the United Kingdom economy.

(g) Within the Department

7. The continuing aim is to promote economic, efficient and effective management within the framework of the top

management system. Objectives include the implementation of agreed recommendations of the scrutinies concerned with consultancy inspection and review services and with the Architects and Building Group. A further scrutiny of the responsibilities and procedures under Section 12-16 of the Education Act 1980 (which deals with the changing pattern of schools) is planned. A further aim is to respond positively to initiatives by central Departments in implementing FMI principles.

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ANNEX B

	£m 1986-87	Real Change since 1980 %	Real Change to 1988-89 (plans, %)
B1. Public expenditure (main items)			
Schools	8628	-8.3	-6.9
FHE	1831	-6.9	-6.4
Universities	1565	-9.8	-1.8
Student Support	885	-5.3	-3.3
Administration (LAs and DES) and other services	795	+3.6	-6.4
Youth training including schools (MSC)	1082	+260	+17
Adult training (MSC)	270	-40	-3.7

B2. Demography (main features)

Primary school numbers fell by 25% in 1975-85; will rise slowly to 1995, then fall again.

Secondary school numbers are falling by 28% in 1979-91, will then rise slowly to 2000.

Entrants to higher education (university and polytechnics) will fall by 14% in early 1990s (33% demographic drop, offset by higher take-up and more adult attendance)

B3. Unit costs

Schools: current and capital spending per pupil rose by 14% in real terms between 1979-80 and 1985-86. The standard measure of unit costs per pupil (omitting capital, school transport, meals and milk) rose by 20% in real terms.

Universities: down by 3% since 1980: level in recent years as a matter of university policy

Polytechnics: down by 24% since 1980

C. Teachers' Pay

- C1. Issues: a) teachers' claim of 'Back to Houghton' (30%+)
b) NUT refusal to accept defined conditions of service, and improved pay structure.
- C2. Costs: each 1% on pay bill for nursery, primary, secondary and special schools for 1986-87 at current pay rates is £60m for England and Wales; £66m, including Scotland; plus extensive repercussions.
- C3. State of play: a) In September, ACAS and Main likely to recommend some improvements in structure and conditions and a general pay increase of at least 7% rising to 15%.
b) ACAS and Main likely to recommend free collective bargaining between IAs and unions. DES want Standing Review Body. Treasury argue for tripartite statutory negotiating machinery as better reflecting responsibilities, more effective, more economical and keeping open other medium-term options.
- C4. Treasury Objectives
- a) minimum increase
 - b) maximum improvements in structure
 - c) maximum leverage on conditions
 - d) a system for the future to deliver controlled pay and continuing leverage on conditions.

NB Pay may give leverage on pay structures and conditions, but the influence on the quality of teaching is indirect and relatively weak.

- C5. Treasury Strengths: a) part-paymaster
b) general opposition to Review Body
c) importance of public expenditure and pay restraint
d) intransigence of NUT?

- C6. ^eTrasury weaknesses: a) relatively low pay, historically and vis a vis police, armed forces etc
b) bandwagon effect of ACAS and Main.
c) impact of teachers' industrial action (political desire for "peace in our time")
d) converging interest of employees, unions (and DES?) in substantial increase financed by central government.

C7. Important Variable: parent-power

Responsibilities ("Radical Options")

- D1. Issues: a) What policy to adopt to improve schools before the next Election?
- b) Below the surface: What to do about the confusions of power and responsibility between central and local government for both funding and quality; in particular whether to try to align power and responsibility by centralising power or by localising responsibility?

- D2. State of play: Ministers have rejected centralism ("National Education Service"), clearer local authority responsibilities and market solutions ("Credits").

DES favour relatively marginal changes to existing system to improve choice (more assisted places; some direct grant schools; "open enrolment").

Mr Baker wants to play this slowly and low key (manifesto rather than Green Paper)

Mr Tebbit favours a formal customer/contractor relationship between central and local government.

D3. Treasury Objectives

- a) costed and considered decisions within the public expenditure totals
- b) better quality of training and education for the major part of the schools' output
- c) better match of powers and responsibilities

Instruments

- E1. Issue: how to secure continuing leverage within the existing structure of responsibilities -
- a) to improve pay structure and conditions
 - b) to enforce conditions
 - c) to improve quality of teaching
- E2. These issues arise only to the extent that powers and responsibilities continue to be mismatched (or to the extent that the Government might wish to exert leverage in a more devolved structure). The three sorts of leverage are separate:
- a) will not of itself deliver b); b) will not of itself deliver c).
- E3. State of Play: DES want major extension of specific grant, claiming that they can thereby exercise more influence.
- Treasury believe this will be expensive and only marginally effective (unless applied in such detail as to amount to central control); and, either way, impracticable in political and legal/administrative terms.
- E4. Treasury Objectives
- a) a formal Government role in negotiations on pay and conditions.
 - b) specific duties laid on teachers and local authorities, actionable by local authorities, auditors, parents (and central government?)
- E5. Strengths: widespread scepticism about DES proposals
- E6. Weaknesses: Treasury proposals also likely to have slow and relatively marginal effect
- E7. Important factor: Difficulty of any early legislation.

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ANNEX F

Funding : Current Bids to Spend More

F1.	<u>LA Current</u>	1986-87 (est outturn)	1987-88 proposed provision	1987-88 increase on baseline
		11,955	11,940	1442
F2.	<u>LA Capital</u>	1984-85 net provision/ actual	1986-87 net provision	1987-88 bid (net provision)
		280/409	308	+150
F3.	<u>Other (PES)</u>	1986-87	1987-88	to 1989-90
	Universities	1564	+114	to +216
	Research Councils	613	+50	to +75
	Other bids	292	+32	to +54
F4.	<u>State of play:</u> LA current close to settlement: step to "realism" gives scope for agreement on provision close to bid.			

PES (including LA capital) likely to go to Star Chamber.

DEm/MSc have already settled with no net additions to baseline, but with switches allowing +12, +41, +84 for extension of TVEI in schools.

ANNEX G

UNIVERSITIES

- G1. Issues: a) Universities' pressure for more money;
b) How to secure the more efficiency and purposeful management of universities' resources.
- G2. State of play: Proposals for rationalisation and improved efficiency to be considered as condition of increased funding in PES.
Croham Committee considering role of UGC.
Review of student support announced.
- G3. Treasury Objectives
- a) real increases in value for money at minimum extra cost
 - b) clear definition of responsibilities for allocating resources and securing best use of them
 - c) to introduce as much loan support (rather than grant) as possible within existing totals (important not only for the attitudes of those coming through the system but also for the quality of teaching and the demands students make of universities)
- G4. Strengths: a) such figures as there are suggest that current funding is high by international standards, if lower than universities have enjoyed
b) growing sense of inadequacy of university performance
c) some helpful pressures for change within universities.
- G5. Weaknesses: a) much more than in other countries goes to student maintenance, and correspondingly less to renewal of equipment etc.
b) strength of traditional "establishment" lobby
c) genuine rigidities of the system, eg tenure
d) political sensitivity of closures and of student support.

CHANCELLOR OF THE EXCHEQUER 12/2

FROM: J F GILHOOLY
DATE: 29 JULY 1986

cc. Chief Secretary
Minister of State
Sir Peter Middleton
Mr F E R Butler
Mr Anson
Mr Kemp
Mr Gilmore
Mr Jameson (o/r)
Mr Scholar
Mr Burr
Mr Culpin
Mr Pirie
Mr Halligan
Mr Tyrie

*W. Spence
M.*

TEACHERS' PAY: LETTER TO MR BAKER

1. I attach a draft, as discussed at the meeting with you and the Chief Secretary. The sentence in square brackets at the end of paragraph 1 will have been overtaken if a meeting of MISC 122 has been arranged. (Notes for use at that meeting to follow).

Ch
I am chasing DES
about making a statement
on the record and have
alerted No 10 to need for
meeting if not - probable
slot 5-30 ish
AA



J F GILHOOLY

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DRAFT LETTER TO: SoS FOR EDUCATION
 COPIED TO: PRIME MINISTER
 MEMBERS OF MISC 123/2
 SIR ROBERT ARMSTRONG

It is clear that the proposals which have
 [I have not yet seen the precise details of what has] come out of the ACAS
 [talks in Coventry, but clearly the proposals] go far beyond the increases
 we ~~were~~ willing to see on teachers pay, while falling far short of the
 improvements which you have been seeking on educational grounds. [I think
 it essential that we have an urgent meeting, under the Prime Ministers'
 chairmanship, to discuss the handling of what is not only a major issue for
 public expenditure, education policy and pay policy but also a major political
 issue.]

I was ^{concerned} [dismayed] to see the press ^{reports} [stories] this morning [eg. in "The Guardian"]
 which attributed to DES spokesmen a considerable retreat from the Government
 line which was agreed at the Prime Minister's meeting last Thursday, and
 which I understand was taken by your representative in Coventry. Unless
 immediate steps are taken to put ~~the Government's~~ ^{our} agreed position clearly
 on the record the Government's stance will be completely undermined.

In particular, we need to make it clear that the offer of the £1250 million
 over four years (with Government meeting its [RSG] share of it) was conditional
 upon the delivery of educational objectives, [While we will await the final
 outcome of the ACAS process,] what was agreed in Coventry falls far short
 of meeting our educational objectives for example, on differentiating reward
 for for maths and science teachers in short supply. We
 need to make this clear, and given this morning's press stories, ~~I think~~

this requires a statement from an education Minister today.

I ^{am copying} [have copied] this letter to the Prime Minister and other members of MISC
122; and to Sir Robert Armstrong.

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FROM: A G TYRIE
DATE: 30 JULY 1986

CHANCELLOR

*Ch
Apart from the comparison
with the miners' strike (para 6)
this is pretty much as expected.
AA
30/7.*

cc Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Mr Gilhooly
Mr Kemp
Mr Gilmore
Mr Cropper

I have spoken with my opposite number at DES this morning and obtained Mr Baker's likely political gloss to his line set out in paragraph 9 of his minute to the PM. I gather most of these points were made at DES prayers this morning.

2. Mr Baker thinks that we cannot afford to derail the Coventry talks. A heavy handed "1.25 billion is all you are going to get" line from the Education Secretary would destroy them. He favours a studied silence on the numbers; this might be interpreted by Coventry negotiators as "baffling". Provocative talk would be foolish.

3. Advice to Mr Baker from DES officials is that the Government is unlikely to achieve much of a compromise on the money (£1.25 billion against £2.9 billion). In the end the Government will cough up. He should concentrate on the conditions attached to a settlement (maths, differentials, more pay for better teachers etc). There may also be scope for telescoping the timescale of the package to 3 years.

Why?

4. Mr Baker apparently agrees with this advice. He has electoral considerations very much in mind. The Government cannot afford more disruption. Industrial action that we have seen so far has been "cost free" for the teachers. They may go one step further and strike. Moreover it may be cheaper to settle now, particularly if Main offers better terms in October and thus embarrasses the Government further.

5. Mr Baker has been advised that some teachers, particularly in the NUT, don't want a settlement. They are working closely

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with Giles Radice. "If the dispute drags on Labour will smile all the way to an election." Therefore Mr Baker will argue that this is not a resource battle between departments but a political battle between the parties.

6. Apparently Mr Baker also draws an analogy with the miners' strike. The PM settled the first miners' strike with a very generous settlement. This gave us time to prepare the ground to win a second battle.

m-meg
ry A G TYRIE

SECRET AND PERSONAL

4

From: J Anson
Date: 1st August 1986

CHANCELLOR

cc
Chief Secretary
Sir Peter Middleton or
Mr F E R Butler
Mr Gilmore
Mr Cropper
Mr Tyrrie

(* and Mr Anson has done a good job in putting it together so quickly)

Ch
I think paras 9 to the end are very good. But the first part needs some more work. Would it help if I tried a quick redraft on Monday? When do you want to get something to be PM? - Mr Baker's "inner city schools" could provide a useful ref. AA 1/8

Notes @ FJ. M.

SCHOOLS

I attach the paper which you asked for on Wednesday evening. I am indebted to Mr Gilmore for the substance of the opening section which deals with the weaknesses in the present system.

2. Perhaps I could add two points from a Treasury standpoint which are not dwelt on at length in the paper.

3. The weakest link in the argument is on pay. Mr Gilmore has quite understandably stressed pay in paragraphs 5-6 as one of the faults of the system. But the "way ahead" could be criticised for not wholly solving it either. If we could get down to "plant bargaining" that would be a possible solution, but it was not thought likely at your meeting that this could be achieved, and there would still be some danger of drift as schools bid each other up for teachers with scarce skills: teacher supply would be very important. So long as national negotiations persist, the only defence is DES involvement in the negotiations, and tight control of the level of capitation payments.

X will be v important and will be distinguished from the old system at the moment LAs know they can always raise rates.

4. The second point concerns control. As I said in my note last week, once one accepts the idea of special payments to meet particular problems (in inner cities, rural areas, etc) the pressure for such payments to be bigger or more extensive would be there, and might prove more seductive than straightforward increases in capitation payments. But there would also be a parents' lobby to step up the basic capitation payments. Once the funding of the service is through transfer payments, the problems of control would be rather similar to those of social security. A very strict control would be needed to avoid efficiency gains going into the teachers' pockets rather than the Exchequer.

5. Since your meeting, we have received Mr Baker's paper on City Technological Colleges for the inner cities. Mr Burr will be letting you have advice on that when DES have put the case to us at official level. But it is interesting that Mr Baker appears to have accepted in that context some of the ideas outlined in Save Our Schools and in the attached paper - ie free-standing schools with their own governing bodies, determining pay and condition locally, and undertaking certain specified requirements in return for per capita grant-aid. Mr Baker's City Colleges proposal could therefore be regarded as in some sense a pilot project for this line of thinking. The problem with it, in the form in which he has put it forward, is that it would be all extra money.

6. The attached paper has been prepared from material available within the office, on the assumption that it is for your own eye and possibly that of the Prime Minister's. If you wanted to circulate a paper more widely, it would benefit from clearance with DES and DOE, since it does of course trample very extensively over their departmental business.

[Signature]
J ANSON

* throughout

*A good & comprehensive paper. Per Rank Mr Anson. I take it (if not, in some sense) As you say, no first rank needs a letter from me. I agree with all your points - a hard work some of my own - to I will be most grateful if you will send me a draft of the paper as soon as possible. The out going have been sent back half of the paper is no gap in no sense half of the paper is no problem to intention that CG will need to be kept/gain content of LA Commission but that is all. I will like to send this to PM, * on a personal basis, with a copy to you (with post draft) ASAP. * you should do to by a note of a bilateral meeting with the PM. I had had with me.*



FROM: A C S ALLAN

DATE: 5 August 1986

MR ANSON

cc Mr Butler
Mr Burr
Mr Cropper
Mr Tyrie**EDUCATION**

The Chancellor was most grateful indeed for the paper you prepared so promptly last week. He has made some drafting changes, and I attach a new version incorporating these. I should be very grateful for any comments as soon as possible. He plans to give this to the Prime Minister to consider over the Summer, before a meeting with her after the break.

ACSA
A C S ALLAN

~~THE~~
SCHOOLS - WAY AHEAD

lc One of the Government's priorities is to improve the quality of education. But the public perception is of a decline. The Government is making every effort - and spending a lot more money - but seems to get very little back in return. This paper considers how this position has come about, and what the way out might be.

Policy Objectives

ld 2. The Government's objectives are clear. Annex A reproduces the DES's Departmental objectives for schools. These reflect the Government's views that the priorities should be to promote skills and encourage practical and technical training, while maintaining the breadth and balance of education. This should be done through a combination of an improved curriculum, better examinations, greater parental influence and better teacher training and appraisals. But progress towards these objectives has been disappointing.

Resources

lc (1979-80). 3. The problem is not one of lack of resources. DES themselves say that their main aim is "to use more effectively and substantial resources available". They are indeed substantial (Annex B). They compare well with spending in, for example, France and Germany. And spending per pupil has risen by 20 per cent in real terms since 1980. The problem is how to get the best use from the funds. ILEA spends 50 per cent per pupil than other comparable authorities, but produces worse education.

Power and responsibility

4. The main difficulty lies with local authorities, and the lack of leverage which the Government has over them. The

Government can give local authorities more money, but has no means of making sure that it is spent in the way it wants. There is a mismatch between power and responsibility. effective
2

5. The key responsibilities for the provision and quality of education probably should rest and are certainly perceived to rest with central government and with the individual school. It is noteworthy that throughout the teachers' pay dispute parents have blamed both the central government and the teachers (and their unions), but not the local authorities. Central government has responsibility for national standards, for the effect of education spending on public expenditure as a whole, and for the effect of teachers' pay on other pay throughout the economy. Local authorities have none of these responsibilities. And the responsibility for the day-to-day quality of teaching of particular children in a particular school can in practice only rest with the head teacher and the teachers of that school.

6. Conversely, local authorities who have so little of the perceived responsibility have a very large share of the power. They have a strong influence on the content of the curriculum in their schools. They have considerable freedom to negotiate agreements on pay and conditions with the unions, which central government is then under pressure to accept and finance. They have no concern at all for the Government's public expenditure targets, and not even rate-capping seems to have been very successful in stopping their more extreme spending. There is no sign of them taking much notice of the Audit Commission reports on value for money.

Options under the Present System

7. Is there anything that can be done within framework of the present system to alter the mismatch of power and responsibility? DES have made numerous attempts. But the instruments available are of little effect:

- (i) Specific grants are an obvious, but unsatisfactory weapon. They could have only a marginal effect on behaviour unless they were administered with such

detailed monitoring by DES to amount to a major increase in central bureaucracy. More fundamentally, they can encourage local authorities to spend more on things they would otherwise be unwilling to spend money on, but can do nothing to stop the local authorities wasting money elsewhere: so the net result in an increase in spending. There is no practical way to overcome this: local authorities are increasingly litigious, and would be quick to challenge in the courts any attempts to fetter them.

(ii) Increased provision for spending on education, and consequent increases in unhypothecated block grant or capital allocations, are even worse. They need not necessarily be spent on education at all. Even if they are, there can be no guarantee they are spent in the way the Government wants.

(iii) A Pay Review Body would not necessarily establish better conditions of service to accompany higher pay; nor in any case, would it do anything to see that local authorities enforce the conditions, let alone that children were better taught.

The conclusion must be that under the present system, with power and responsibility so badly matched, the Government has very little scope for securing the improvements in education it wants.

The Way Forward

8. To find a way forward, power and responsibilities must be better aligned. What is needed is a clear idea of the sort of structure for education which could deliver the Government's objectives. Otherwise all that will be available is yet more piecemeal changes - but increasingly ineffective and expensive ones. Any steps towards a new structure will inevitably be controversial, since they will involve tackling existing vesting interests. But they will be worthwhile if they can produce the positive improvements the Government is looking for.

Local and national responsibilities

9. First, the local level. The proposals in "Better Schools" for the reform of school governing bodies should give parents more influence than in the past. But what is needed is to give parents more direct power as consumers, while giving the school management more effective power to recruit appropriate staff and manage their local budgets.

10. For this purpose the school needs to be established as a clearly defined unit for both management and budgeting, with its income directly related to the number of pupils whom parents choose to enrol in it. Each school would be governed by a Board which would be elected by parents from among their own number, with a limited power to co-opt, eg local businessmen as "user" interests. Decisions on hiring and firing should rest with the individual school Board and head teacher. Fixed-term contracts, renewable, would become the norm. The school should be free, within its local budget, to recruit suitable staff for local needs.

11. At the same time, the Secretary of State should have effective powers to discharge the responsibilities which only he can fulfil: to lay down a core syllabus, to specify examination standards and to monitor performance and value for money through HM Inspectorate, to ensure an adequate supply of suitably qualified teachers, and to control national expenditure on education.

Funding

12. These requirements at the local and national level would be reinforced by a system of per capita funding direct to the school. Each school would be competing for custom, and its income would depend on its success in doing so. With that income it would be free to manage its budget to deliver the kind of education which the parents want, subject to the national core requirements specified by the Secretary of State as a condition of the capitation payments.

13. The capitation payments would be fixed primarily at a standard rate per head for the main pupil categories (primary,

secondary, etc). Some limited additions might be needed, eg in areas of sparse population ~~and~~ ethnic diversity. Such extras should however be kept to the minimum, since they could only be accommodated at the expense of the general capitation rates. Unit costs at present vary widely between different areas (see Annex B). In order to keep the initial cost of the new system no higher than that of the old, the general capitation rates would have to be set slightly below the current average unit costs, in order to leave room for the extras. A firm line would need to be held on the level of these rates, both initially and thereafter, in order to restrain costs (including pay) and encourage greater efficiency.

14. It may be argued that such a reform would become bogged down in the task of setting up 20,000 local authority schools as separate legal entities able to employ staff, manage property, etc. It is not clear that this is an insuperable objection, but if it is it would be worth considering whether, as a transitional stage, they could be set up in small groups of not more than, say, 10 schools, so as to reduce the number of units with which the Department would initially have to deal, and provide some extra flexibility in local budgeting without impairing local responsibility. If the group contained a secondary school as well as primary schools, this could help to assure greater continuity in parent representation on the Boards.

Teachers' pay

15. Pay and contract conditions would, as now, be of critical importance. The ideal would be to devolve pay bargaining to the level of the school, with the maximum freedom for the head teacher to set salaries reflecting teachers' appraisal records and their usefulness to the school (eg in specialist subjects). In practice, with national unions seeking to retain their role, it seems probable that some national negotiations would need to continue. If so, they should be limited so far as possible to laying down a basic framework, with schools free to determine how far to reward special skills and responsibility. The Secretary of State would need to have a clear role in any national negotiations, commensurate with his responsibility for funding the system.

SECRET AND PERSONAL

The application of any centrally agreed contract conditions might also need to be one of the conditions of the capitation payments, although the enforcement of such a condition might be difficult except in extreme cases.

Local contributions

16. The question of local contribution to the costs by the parents would also need to be considered. There will continue to be strong pressure for all parents, wherever they live, to be able to obtain schooling for their children without direct payment. But many parents, if given a free choice, might be willing to make marginal extra payments to improve the quality of the service, as they do at present to purchase equipment, etc. Any parents who wish to do so should be encouraged to give voluntary help through organisations of the "league of friends" variety to either current or capital costs; and any legal barriers to this should be removed.

Open enrolment

17. A condition of state funding would be that the school would accept pupils up to its reasonable capacity. Such a stipulation would however hardly be necessary when each school would have a strong financial incentive to maximise its intake so far as its buildings and equipment would permit. Local interests would be strongly encouraged to play a part in financing capital costs of extensions or new schools, but a substantial part of capital spending would probably need to be financed by DES.

Local government

18. Developments of this kind would leave little room for local authority involvement. The present LEAs would become largely redundant, apart from further education, and some peripheral functions like dealing with truancy and providing school welfare services. This would have a very major impact on the counties, who would be left essentially with personal social service, police, fire, further education, and some roads. One solution would be to have a national police force and fire service, transfer personal social services and further education to the districts, and divide county roads between D/TP and the districts, leaving

(parish councils apart) a single tier of local government. But an alternative would be to leave the rump county authorities still in being (simply transferring to the school Boards their schools estate and an appropriate slice of their cash balances).

X 19. Whichever of those two options was followed, there would be a radical change in the shape of local government finance. The present pattern is set out at Annex C. If schools and related LEA administration were removed the local authorities would be relieved of expenditure roughly equal to their receipts from rate support grant. They would thus be able broadly speaking to finance the remaining services entirely from the local revenues and the present specific grants. Any necessary equalisation of needs and resources could be achieved by applying a suitable distribution formula to the yield of non-domestic rates, assuming that this had been pooled under the Green Paper proposals.

20. This would place local government finance on a much sounder footing. As the remaining local services would be financed predominantly from local revenue without any block grant, it would be much clearer that the local authorities were responsible for the level of the community charge they levied, rather than this being perceived as the result of central government decisions on the rate support grant. Local accountability would therefore be greatly improved, and it should be possible to give the local authorities a much freer hand in running their services (subject to a continued control on their ~~spending~~). While the counties and the existing local government establishment (and staffs) would strongly oppose the change, the districts would gain some real advantage from it.

X borrowing
lower case → **PRESENTATION**

21. The massive size of the change must not, of course, be underestimated. In its impact on local government, it would be more far-reaching than GLC/Met abolition, which largely re-arranged existing functions. But if nothing is done, the government will be stuck with a system which fails to deliver

its objectives in terms of education and value for money, and leaves central government with crucially important responsibilities but insufficient effective instruments to implement them.

22. The change would need to be presented positively, bringing out the key benefits to the main interested parties:

- The parents and children would have the chance to exercise real consumer power, both through the link between funding and enrolments, and through parent participation in the school Boards.
- The teachers may well be concerned at the greater emphasis on individual performance and engagement by ~~contracts~~, but the government would need to stress the advantages of greater devolution to the school and freedom to manage their budgets. This should appeal in particular to head teachers. The unions would of course be opposed in any event.
- Local government as a whole would bitterly resist the loss of education, but the districts would gain from being left freer to provide the remaining local services with local revenues, with minimum interference by central government; and the increasingly bitter running battle between central and local government would at least be brought to an end.
- Finally, the Government would be able to carry out its central role, while leaving detailed administration where it belongs at the local level.

SECRET AND PERSONAL

From: J Anson
Date: 5 August 1986

MR A C S ALLAN —

cc

Mr F E R Butler
Mr Burr
Mr Cropper
Mr Tyrie*Ch
I have incorporated
these subject to be point
marked AA
5/8.*

EDUCATION

I have very few comments on the redraft attached to your minute of 5 August:

Paragraph 3 The position is that ILEA spends 60 per cent more, but of this, 15 per cent is accounted for by London weighting and extra needs. Rather than substitute 45 per cent, you may prefer to round it by saying "spends half as much again per pupil"

Paragraph 4, lines 3-4. It is not quite true to say "no means", since the "more money" could have been in the form of specific grant, in which case that particular addition would be spent in the way the Government wants. But the local authorities would then rearrange the rest of their budgets. The simplest amendment would be to insert "effective" before "means".

Paragraph 6 The last sentence is a bit sweeping. They have not yet had much time to react to the reports, but some of the better ones have probably done so. If your purpose is to work in a reference to the Audit Commission, it might be better to say something like "The Audit Commission has shown that there is still a great deal of scope for getting better value for money".

Paragraph 7(i) The last sentence is of wider application than specific grants to which this sub-paragraph refers. It would go better after the fourth sentence of paragraph 6.

*I have changed
"no sign"
to "little
sign"
that keeps
it punchy**Overtaken
by your drafters
amendment.*

Paragraph 18, line 8. It was suggested at the meeting on Wednesday that the idea of a "national police force" would stir up worries which would create an extra obstacle to pursuing the ideas in the paper. I think there is force in that, and I doubt if the police (or fire) would ever be run operationally from the centre: there would still need to be some equivalent of the Chief Constables in each area. The present responsibilities of the counties for the police are anyway restricted by the operational independence of the Chief Constable. I wonder therefore if we could at least soften the worries by substituting "One solution would be to transfer the counties' responsibilities for police and fire to the centre, [for personal social services and further education to the districts, and divide.....etc.]"

I think this is right.

✓

Paragraph 22 I hesitate over "brought to an end". It would be nice if that were so, but I suspect it would be truer to say that the areas of conflict would be greatly reduced. There would still be significant potential problem areas - eg local authority manuals pay, to take a topical example.

I have changed "would" to "could"

2. I have also noted in red on the attached copy a number of very minor points, including a few typos left over from Friday's version.

✓

J

J ANSON

SECRET AND PERSONAL**SCHOOLS - WAY AHEAD**

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Power and responsibility

4. The main difficulty lies with local authorities, and the lack of leverage which the Government has over them. The

Government can give local authorities more money, but has no means of making sure that it is spent in the way it wants. There is a mismatch between power and responsibility.

5. The key responsibilities for the provision and quality of education probably should rest and are certainly perceived to rest with central government and with the individual school. It is noteworthy that throughout the teachers' pay dispute parents have blamed both the central government and the teachers (and their unions), but not the local authorities. Central government has responsibility for national standards, for the effect of education spending on public expenditure as a whole, and for the effect of teachers' pay on other pay throughout the economy. ~~Local authorities have none of these responsibilities.~~ And the responsibility for the day-to-day quality of teaching of particular children in a particular school can in practice only rest with the head teacher and the teachers of that school.

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SECRET AND PERSONAL

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20. This would place local government finance on a much sounder footing. As the remaining local services would be financed predominantly from local revenue without any block grant, it would be much clearer that the local authorities were responsible for the level of the community charge they levied, rather than this being perceived as the result of central government decisions on the rate support grant. Local accountability would therefore be greatly improved, and it should be possible to give the local authorities a much freer hand in running their services (subject to ~~a continued~~ ^{an overriding} control on their spending). While the counties and the existing local government establishment (and staffs) would strongly oppose the change, the districts would gain some real advantage from it.

PRESENTATION

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SECRET AND PERSONAL

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- Local government as a whole would bitterly resist the loss of education, but the districts would gain from being left freer to provide the remaining local services with local revenues, with minimum interference by central government; and the increasingly bitter running battle between central and local government would at least be brought to an end.
- Finally, the Government would be able to carry out its central role, while leaving detailed administration where it belongs at the ~~local~~ level, *of no individual school.*



FROM: A C S ALLAN

DATE: 24 September 1986

CHANCELLOR

BILATERAL WITH MR BAKER

The main purpose of this meeting is to sell to Mr Baker the general approach you have successfully presented to the Prime Minister. But I am sure that Main will inevitably come up too.

2. The main selling points for Mr Baker are:

- (i) You see this as a way out of the mess of local authority finance. With direct funding from the Government to schools, there would be no more rate support grant, much better accountability, and much less central Government interference.
- (ii) The notion of greater power being devolved to governing bodies and parents is attracting widespread support - and has been picked up by Mr Baker himself in his proposals for City Technological colleges.
- (iii) It would end the miss-match between power and responsibility which bedevils the present system - to Mr Baker's own disadvantage.

3. There are some admitted difficulties, which officials will need to discuss when preparing the joint paper.

- (i) Teachers' pay - though we would at least get away from the position where teachers negotiate with teachers about their own pay.



- (ii) How per capita payments would be fixed, and what would be done about admissions policies.
- (iii) Whether some sort of umbrella organisation would be needed to help administer groups of schools.

ACSA

A C S ALLAN

(could also joke about lateral
with other Mr Baker within 24 hours)



FROM: A C S ALLAN
DATE: 24 September 1986

CHANCELLOR

*Reduce - M,
I agree.*

*P. When do
SOS & SOS
on this?*

*P. The letter
a week with
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attached
of our
of the
P. H.*

MAIN REPORT

Mr Halligan's summary below indicates that Main will be even more difficult to handle than we thought: it proposes increases averaging 22.8 per cent to be paid from 1 October 1986. This is going to be presentationally awful, even though (a) 5.5 per cent has already been paid on account, and (b) the increase is intended to last until March 1988. It has also strayed into recommending more resources for equipment, books etc. The reward in terms of a much better definition of duties looks tiny by comparison.

2. I am not sending you the whole report tonight (a summary is in this bundle), but I will take it to Washington.

3. The late development is Mr Rifkind's note. He wants to give it a warm welcome when it is published on 2 October, using words such as "this excellent report", "a comprehensive and well balanced set of recommendations", and "I hope that the report will provide a basis for a comprehensive settlement".

4. He is proposing to raise this at the Prime Minister's meeting at 4.00 tomorrow (previously intended to be about City Technical colleges only). I fear this means you may have to go in order to stop Mr Rifkind using this sort of language. If you agree, I will urge on No.10 tomorrow that this is taken as the first item on the agenda, so that you can then get away.

ACSA

A C S ALLAN

PERSONAL AND CONFIDENTIAL



FROM: JILL RUTTER

DATE: 3 October 1986

PRINCIPAL PRIVATE SECRETARY

TEACHERS' PAY

The Chief Secretary asked me to report to you a conservation he had today with Councillor John Alston of Norfolk County Council.

2 Councillor Alston had led a delegation of Conservative Education Authorities to a meeting with the Secretary of State for Education this week. He said that they had been very disconcerted by the Secretary of State's attitude. The Secretary of State gave no impression he would attempt to take a robust line but rather suggested he would have no option *but* to accept whatever agreement was made in Burnham between the employers and employees. He told the County Councillors that he had no powers to intervene.

3 Norfolk had worked out that the cost of Coventry alone to them would be £10 million. The additional ~~fills~~ e.g. on contact time would in total add another £2 million. Their quick estimate was, if Main applied in England, costs would rise to £15 million.

4 The Chief Secretary will be raising the issue of teachers' pay when he has a further private bilateral with the Secretary of State for Education on Monday. In particular I think he drew the Chancellor's attention to a report in yesterday's Guardian headlined "Baker To Offer Teachers 15 to 20 Per Cent".

Jill Rutter

JILL RUTTER

Private Secretary

*For K-morris
by*



FROM: A C S ALLAN
DATE: 21 OCTOBER 1986

CHANCELLOR

EDUCATION WITHOUT LEAS

Mr Anson seems to be doing a good job (see his note below).

2. The passages on grant (paras 5-7 in Mr Anson's note and paras 23-28 in the main paper) raise the most critical issue. A major selling point of your proposals is that local authorities would become independent of central Government, with all their finance raised locally. Under the arrangements now proposed the Government would impound the £8 billion non-domestic rate revenue (not in itself a bad thing at all) but would then pay some £4 billion grant back to local authorities so as to equalise needs. I should have thought that more work was needed to identify other options - eg an arrangement where half of non-domestic rate revenue went automatically to local authorities, distributed in a manner which would equalise needs.

3. But this and other points can no doubt be followed after the Prime Minister's meeting. Do you want a meeting with Mr Anson this week?

AA
A C S ALLAN



FROM: A C S ALLAN
DATE: 17 November 1986

CHANCELLOR

Thales.
*(Per put in
main for
DST to take)*

TEACHERS' PAY

The Chief Secretary went to the Prime Minister's meeting this morning. There seemed to be no problem over Mr Baker's ^{answer to PNQ} ~~statement~~ this afternoon: he was very ready to stonewall and to indicate that no more money was available. His position was made easier by the fact that all that has been agreed so far is a draft document on terms and conditions; it will not be finalised until the end of this week.

2. Officials will produce a paper for MISC 122 by the end of this week - probably for a meeting on Monday. At first sight the position looked to be as follows:

- (i) Most of the terms and conditions seemed OK, though there was a problem over total hours.
- (ii) The agreements on cover and teaching time needed to be looked at closely. Mr Baker was saying this morning that they might not cost much or that we might be able to do a deal. We shall need to see detailed costings.
- (iii) Class size is one of the hardest. The Prime Minister is firm on no commitment on class sizes whatever, but Mr Baker is worried about being seen not to oppose large classes.
- (iv) Pay structure. This was the key, and the new agreements were clearly inadequate (especially for head teachers). Mr Baker seemed to be saying that the package was within



agreed costings, both for next year and indeed for all five years. This claim needs to be investigated very carefully by Treasury officials - as does an equally surprising claim that moving the date for the second 8.2 per cent back from 1 October to 1 September would not cost any more.

(v) Mr Baker is very firm on structure, but is worried about disruption in January to April, and so may try to say we should pay 8.2 per cent in January before any changes are implemented. The Chief Secretary rejected this firmly.

(vi) Mr Baker is very concerned about House of Lords problems with his Bill.

3. ^A~~Day~~ meeting with the Prime Minister has been fixed up for Wednesday afternoon (at 5.30 pm after you will have finished your speech in the Debate on the Address) to discuss the politics of all this.

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