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Prime Minister (2)

P.0772

MR WHITMORE

cc Mr Wright

MW

You asked to see summaries of these papers. They are to be discussed by the Home Secretaries group (MISC 79) next week. He will be reporting to you, and Cabinet, hereafter.

LOCAL GOVERNMENT FINANCE AND ORGANISATION

pt 10

In your minute of 24 May to Mr Wright you asked for a summary to be prepared for the Prime Minister of the papers coming forward to the Ministerial Group on Local Government Organisation and Finance (MISC 79).

MCS 11/6

The Duty Clerk has the papers themselves if you want to see them

2. I attach summaries of the main papers, prepared by the MISC 79 Secretariat. The summaries have not been cleared with Departments, or their existence mentioned to Departments. We are, however, sending copies to the Home Secretary, as Chairman of the Group.

3. Although they are far shorter than the original papers, the summaries are still quite a formidable amount of reading. We have arranged them in the following order, which we hope the Prime Minister will find convenient; it corresponds to the order in which they are likely to be considered by the Group.

1. General questions: MISC 79(82)7.
2. Alternatives to Domestic Rates: MISC 79(82)3 and 4.
3. Public Transport in London and the Metropolitan Counties: MISC 79(82)2&6
4. The Greater London Council and the Metropolitan County Councils: MISC 79(82)1.
5. Financing of Local Authority Education: MISC 79(82)5.

We would not trouble the Prime Minister with summaries of MISC 79(82)8 (the CPRS collective brief; this is already in summary form, and simply outlines



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the questions for decision), or MISC 79(82)9 (detailed comments by the Secretary of State for the Environment and his officials on the proposals in MISC 79(82)5).

4. The first two meetings of the Group have been arranged for 16 June and 22 June. The aim is that it should report to Cabinet by early July. It is necessary to have decisions before the Summer Recess on legislation to govern transport subsidies, and on whether Ministers wish to legislate next Session for reform, either interim or long-term, of the domestic rating system. The other matters to be considered by the Group could be taken on a rather longer time-scale.

PLG

P L GREGSON
Cabinet Office.
11 June 1982.

Attachment:


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SUMMARY OF MISC 79(82)7: A FRAMEWORK FOR LOCAL GOVERNMENT

This paper by the Central Policy Review staff suggests that relations between central government and local government are poor. Ministers now face a series of decisions which will amount to a view on how they want local government to develop over the next decade; they need to be clear about their objectives and the role of local government.

The Problem

2. There is an inevitable tension between local government (which regards itself as having an independent responsibility to, and mandate from, the local electorate) and central government (which wants local government to conform to national policies, including policies of economic restraint). One possible resolution of the tension would be for central government to impose financial limits on individual local authorities. Ministers have hitherto rejected such a course because it would greatly reduce local autonomy. But it is the only way of guaranteeing that expenditure by local authorities will conform to the Government's targets.

3. The alternative approach is to increase the pressure on local authorities to exercise self-control. This entails bringing the cost of local services closer home to the local electorate.

4. The existing system fails to bring home the cost of local services to the electorate because the electorate bears only about one-fifth of the cost of current expenditure: the rest is financed by the Exchequer or by non-domestic rate payers. It would therefore be a move in the wrong direction to try to reduce the domestic rate burden by increasing the size of Exchequer grant. The expenditure for which local authorities are responsible and the extent to which they raise their finances from their electorate should be brought into better balance.

Reduce range of Local Authority Functions

5. One possible approach would be to reduce the range of functions for which local government is responsible. The following possibilities are considered in the paper:

a. Education

The Secretary of State for Education and Science considers that in England parts of the education service are falling seriously short of a number of national educational objectives. He has proposed that an education grant should be introduced. The CPRS doubt whether this would significantly increase the extent to which educational objectives are met. It would greatly complicate the system of local government financing. If it reduced the pressure on the domestic rates it would go in a direction opposite to the increase in local accountability which the CPRS think desirable.

Alternatively, education could become a central government service, on lines similar to the National Health Service. This would be a very large constitutional and organisational change. Its effects on efficiency and effectiveness are debatable.

b. Transport

The CPRS agree with the conclusions of MISC 70 that transport should remain a local authority function outside London, but that the case for change is stronger in London because of its size and because of the existence of the rail commuter network. The proposals by MISC 70 for a new Passenger Transport Authority (PTA) are worth exploring further; if Ministers favour them, the CPRS recommend a variant under which local authorities would retain the function of subsidising the bus services of London Transport: the new PTA would act as contractor, and the local authorities as customer, raising funds locally to pay for non-commercial services.

Alternative Financing arrangements

6. The alternative approach is to increase the amount of taxation raised by local authorities from their electorate (with a corresponding reduction in national taxation). The main possibilities discussed in the paper are as follows:

- a. Amend the Exchequer grant system so as, for example, to require all local spending beyond a defined level to be financed 100 per cent by locally-raised revenue.



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b. Over a period of years reduce the Rate Support Grant percentage to ~~xx~~ the amount needed to equalize revenue relative to need (about two-thirds of its present level). This would need to be accompanied by a reform of the domestic rating system, the creation of other sources of local revenue, or both.

c. Convert non-domestic rates into a national, not a local, tax. Central government would decide the level. Local authorities could be given the resulting funds, either as assigned revenues or (with redistribution) through the Exchequer grant system. Another possibility would be to 'cap' non-domestic rates: this might be a first step towards converting them to a national tax.

As for new local sources of revenue:

d. Local sales tax and assigned revenues should be rejected.

e. Reformed domestic rates (ie incorporating changes to improve the fairness of the system, such as discounts for single-owner households) would have many features desirable in a system of local taxation, but could probably not raise revenue on the scale which the CPRS consider necessary if local accountability is to be increased while the functions of local authorities remain substantially unchanged.

f. A poll tax could not be the sole form of local taxation, but might be a supplement to another tax.

g. A local income tax (LIT) is the only tax sufficiently equitable to be the sole source of revenue on the scale the CPRS consider necessary. But it could not be introduced before the 1990s.

No It follows that if Ministers consider that in the long-run local government should have only one local tax, LIT is the only option. If, however, local government could be given two taxes, the range of choice is wider.

Interim changes

7. Any new tax would take some years to introduce. It is therefore worth considering interim changes to restrain local spending by increasing the proportion of marginal expenditure met by the local electorate. It would be possible to change the block grant system so as to increase the penalties for expenditure beyond the grant-related expenditure assessment (GREA). But it is debatable whether the GREA could bear the resulting weight; and the move would be politically controversial.

Other improvements to local accountability

8. The CPRS suggest that a number of institutional changes might also improve local accountability.

a. It would be possible to create unitary authorities. The case for abolishing the metropolitan counties is weak, since their only important functions are transport and police, which need to be organised over wide areas. The alternative would be statutory joint boards. It would probably reduce accountability. It would also have unhappy parallels with the Inner London Education Authority. There is a stronger case for abolishing the Shire districts. But the improvement in accountability would not justify the costs of reorganisation. London is a special case. The only major function of the Greater London Council is transport: as suggested earlier, this might be transferred to a new PTA. The case for abolition accordingly merits further examination.

b. Precepting should be replaced by separate rate bills.

c. All councils should be required to hold elections for one-third of their members every year (as Metropolitan District Councils already must); alternatively, councils which do not already hold elections by thirds should be required to hold full elections every two or every three years.



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SUMMARY OF MISC 79(82)3: ALTERNATIVES TO DOMESTIC RATES

This memorandum by the Secretary of State for the Environment discusses alternatives to the present system of domestic rates for financing local government. It is supplemented by annexes setting out:


- a. key facts about the alternatives to domestic rates;
- b. the response to the Green Paper 'Alternatives to Domestic Rates';
- c. a detailed scheme of poll tax;
- d. possible improvements to the domestic rating system;
- e. possible measures to assist non-domestic rate payers.

2. The memorandum suggests that in considering the merits of both domestic rates and their alternatives the main criteria should be fairness and accountability; and that practicability, perceptibility, cost, implications for the rest of the tax system, financial control, and suitability for different tiers of local government are also relevant.

3. The main criticisms of domestic rates are that they are not fairly related to means; and that many who benefit from local services do not contribute adequately, or at all, to meeting their cost. But the introduction of an alternative tax is more likely to be resented by those who lose than appreciated by those who gain. Moreover, the need to restrain local authority expenditure by increasing accountability points to a tax which is substantial, perceptible, and paid by large numbers. This conflicts with the wish to minimise burdens on local domestic tax payers.

4. The first date by which it would be possible to introduce an alternative to domestic rates is 1985-86. Even if it is decided to abolish the domestic rates it may still be necessary to improve the system as an interim measure.

5. The response to the Green Paper shows the following broad trends:


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(i) General public and rate payers associations for abolishing domestic rates, but with no consensus about a replacement.

(ii) Local authority associations, most professional associations, and business in favour of reformed domestic rates (RDR); some also see a role for a supplementary tax. All the main employers associations against local income tax (LIT).

(iii) Liberal Party for LIT coupled with a new tax on undeveloped property values. Social Democratic Party for domestic rates, plus LIT, with a reduction of rate support grant (RSG). Labour Party have not taken a position.

(iv) The Government's own back benchers generally believe some reform is essential but do not necessarily want total abolition of domestic rates. Little support for a local sales tax (LST); rather more for LIT; considerable support - and also considerable opposition - for a poll tax (PT).

Local Sales Tax

6. LST would increase the number of local tax payers from 20 million to 45 million. But, apart from serious technical problems, it would not enhance accountability; it could not be introduced before 1987-88; it received negligible support in the public consultations; and it was opposed by many Conservative MPs.

Local Income Tax

7. This would increase the number of local tax payers to 26 million. It would score well on fairness. But it would be costly to run; it could not be introduced before the early 1990s; in several versions it would tend to reduce accountability; and it would run contrary to the Government's policy of reducing income tax. (The Secretary of State for Scotland takes a different view - see below).

Poll Tax

8. Department of the Environment officials have prepared an outline PT scheme. Under it, all adults would be liable, though there would be some form of rebate for those on low incomes. The number of local tax payers would be increased to 40 million. It would greatly increase accountability. But it

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would be necessary to create a new register in order to establish liability; and an elaborate rebate scheme, which might well prove unavoidable, would be administratively costly. It could not be introduced before 1985-86 at the earliest.

Multiple Taxes

9. One possibility would be RDR, supplemented by a low level PT. This could increase accountability if it allowed the level of RSG to be reduced. On the other hand, multiple taxes might not be sufficiently perceptible to increase accountability; and there would be political objections to replacing rates by two or more taxes.

Assigned Revenues

10. Assigned revenues would reduce accountability, and perhaps even call into question the justification for elected local authorities. They should be eliminated from consideration.

Reformed Domestic Rates

11. If none of the alternatives to domestic rates are acceptable, something must be done to reform the rates. Possibilities worth further exploration are as follows:

a. Discount/Surcharge

A surcharge on earning non-house-holders would directly tackle the problem that many who benefit from local services do not contribute to meeting their cost. But it would be complicated. Better would be a discount of perhaps 35 per cent for single adult occupiers. The cost would be met by other rate payers. Legislation for a discount scheme might be introduced in 1982-83 for implementation in 1984-85.

b. Domestic Rate Relief

Existing domestic rate relief (DRR) is unrelated to ability to pay. It would be possible, without legislation, to reduce DRR and use the savings to increase the block grant. With legislation it would be possible to modify DRR within existing costs to reduce the rate bills of selected groups of domestic rate payers.

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c. Direct Billing

Precepting might be replaced by direct billing by different tiers of authority.

d. Rayner Reforms

Administrative improvements could reduce the cost of the rating system.

e. Capital Valuation

Since the present rental basis of valuation for rates is based on inadequate evidence, a move to capital valuation would be logical. But it would require legislation and an increase of about 1,600 staff. It could not be justified unless it were intended to retain domestic rates as more than an interim measure.

Non-Domestic Rates

12. Some measures should be taken to ease pressures on non-domestic rate papers:

a. Capping

Department of the Environment officials have been instructed to examine a scheme whereby the Government would set a ceiling, reviewed annually, on non-domestic rate poundages.

b. Non-Domestic Revaluation


The last revaluation in England and Wales was in 1973; it ought to be up-dated. The Chief Secretary, Treasury has reluctantly opposed a non-domestic revaluation on grounds of expense (up to 700 additional staff would be required); and the Secretary of State for Scotland has decided not to proceed with a similar exercise in Scotland.

c. Instalments

More non-domestic rate payers should be enabled to pay by instalments.

Financing of Education

13. There would be serious objections to reducing domestic rates either by transferring the cost of local authority education to central government or by instituting a special block grant for education.



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Control of Local Authority Expenditure

14. So long as local authorities are autonomous bodies, they will remain free to decide their own level of expenditure. Central control of spending by individual local authorities would be too likely to lead to a series of challenges in the courts to be sustainable.

Elections

15. Possibilities such as elections by thirds or whole-council elections every second year may need consideration.

Other Aspects

16. If abuses by a few high-spending authorities were eliminated, much of the dissatisfaction with domestic rates would disappear. Decisions on other matters before the Group will therefore have a bearing on the future local taxation system.

Views of Secretary of State for Scotland

17. The Secretary of State for Scotland believes that the present rating system must eventually be abolished. A two-stage solution should not be ruled out if that is necessary to achieve an acceptable replacement. In the longer term, LIT is attractive, provided that the administrative costs can be minimised; some limit on the yield to an individual local authority might be needed to curb excessive spending and prevent excessive levels of total taxation. Meanwhile, there should be a reformed rating system: there should be a discount for single adult occupiers; and domestic rates should be allowable against income tax. The Chancellor of the Exchequer is opposed to the latter change.

Views of Secretary of State for Wales

18. The Secretary of State for Wales regards the alternatives to domestic rates as unattractive; and there is little pressure in Wales for the rates to be replaced. He favours a reform of the existing system as outlined by the Secretary of State for the Environment.

Timetable

19. Early decisions to reform the rating system could permit legislation in 1982-83 for implementation in 1984-85. A decision to replace the rates




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would require more time. With the possible exception of poll tax, there could be no legislation during the lifetime of the present Parliament.

Issues

20. The issues for consideration are:

- a. Should domestic rates be abolished?
- b. If so, what should replace them?
- c. If domestic rates are eventually to be abolished, is it necessary to make improvements to them in the interim?
- d. If domestic rates are kept, should more substantial changes be made to improve them?
- e. Irrespective of the answers to these questions, should measures be taken to help non-domestic rate payers; and should there be changes in the council election system?



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SUMMARY OF MISC 79(82)4: ALTERNATIVES TO DOMESTIC RATES - GAINERS AND LOSERS

This memorandum by the Secretary of State for the Environment is a companion piece to MISC 79(82)3. It covers a lengthy analysis of who would gain and who lose from the introduction of alternative taxes in place of domestic rates.

2. In summary, its findings are as follows:

(i) 20 million households pay domestic rates. ~~By~~ 40 million adults in those households could pay poll tax. Local sales tax would also bring in some children as tax payers. About 26 million individuals would be liable to local income tax.

(ii) Comparing unrebated alternative taxes with rebated domestic rates, between 25 per cent of households would lose more than $1\frac{1}{2}$ per cent of income from a change to local income tax, and 30 per cent would lose from a composite of local income tax and poll tax. ($1\frac{1}{2}$ per cent of income is quoted, because it is believed that smaller changes are unlikely to be noticed). Gains over $1\frac{1}{2}$ per cent of income range from 12 per cent of households with unrebated poll tax to 28 per cent with local income tax. Between 8 and 10 million adults would be in households showing losses over $1\frac{1}{2}$ per cent of income; and between 3 and 8 million would be in households showing that size of gain.

(iii) Adult losers exceed adult gainers because large households tend to lose from a change and single adult households to gain. With local income tax (and, to a lesser extent, local sales tax) gains are concentrated in low-income households and losses in higher incomes. An unrebated poll tax produces substantial numbers of low-income losers. Gains over 6 per cent of income would be most frequent with the local income tax; they would be concentrated among the retired. With unrebated poll tax smaller numbers of such gains would be concentrated among single adult households - again, often retired.

(iv) Households losing are likely to be concentrated in the northern metropolitan areas of England, and those gaining in London and the south east. This effect is strongest with a poll tax.



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(v) With a poll tax, income-related rebates similar to rate rebates could substantially reduce losses. Local sales tax cannot incorporate direct rebates; and local income tax automatically relieves those with the lowest incomes.

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SUMMARY OF MISC 79(82)2 and 6: PUBLIC TRANSPORT IN LONDON AND THE METROPOLITAN COUNTIES.

These two memoranda by the Secretary of State for Transport recommend:

- a. Early legislation to constrain the amount of transport subsidies by defining the powers and duties of local authorities and transport executives more clearly, backed up by indicative subsidy figures set by the Government; and to create a new passenger transport authority (PTA) for London which would, among other things, take over control of London Transport (LT) from the Greater London Council (GLC);
- b. action to improve efficiency and allow greater scope for private sector involvement.

The Secretary of State stresses the political desirability of making changes in the control of LT as soon as possible.

2. The memoranda are accompanied by a report by a group of officials (MISC 70). The bulk of the summary prepared by MISC 70 is reproduced in the annex to this note.

Need for Legislation

3. The GLC continues to argue for a low fare policy, to blame the Government and the law for service cuts and fare increases, and to stir up trouble. Early legislation is necessary to clarify the legal position. It is also needed both to reduce excessive transport subsidies paid by metropolitan county councils (MCCs) and to ensure there is reasonable consistency between the subsidy regime in their areas and in London. These measures would allow LT to plan securely and public expenditure on transport subsidies to be contained.
4. There is also a need to promote greater efficiency by establishing an arms-length relationship between local authorities and transport executives and by measures such as requiring tenders for running certain services, so introducing more competition and scope for the private sector.



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London

5. Control of LT should be removed from the GLC. But renationalisation would not be the right answer. Securing the best use of the resources for transport in the London area requires a small team of professional managers. This could best be achieved by creating a new PTA. This would act as a holding company for LT, with a remit to break it into more manageable units; it would administer Government grant to British Railways' commuter services (which would raise some Community complications not expected to be insuperable); and it would promote rationalisation between railway and underground.

Local Government Structure

6. There is no compelling transport case for abolishing the MCCs. If, however, it is decided otherwise, joint boards nominated by district councils should take over transport responsibilities in the conurbations. If it is decided to make substantial changes in local government organisation, but it is impossible to legislate for them in 1982-83, the legislation on transport subsidies which is essential in 1982-83 should contain provision to prevent irresponsible behaviour by the authorities proposed for abolition.

SUMMARY OF REPORT BY MISC 70

There is a need for continuing subsidy to public transport in the conurbations. But there is scope for making bus operations more efficient; and for more competition.

2. There is a strong case for local political responsibility for public transport.

3. But legislation is needed to control local authority expenditure on subsidies. This should probably make the statutory duties of local authorities and transport executives more specific, not put specific limits on expenditure.

4. The metropolitan county^x councils, except perhaps South and West Yorkshire, should keep their present transport responsibilities. If the metropolitan counties were abolished, responsibility for public transport in the continuous built up areas should be given to statutory joint boards drawn from the districts.

5. The immediate problems are more acute in London. Without early legislation there are likely to be big fare increases and service cuts, leading to industrial action.

6. There are also longer-term problems of transport in London. There are three possible ways of dealing with them:

(i) Try to control subsidies, improve efficiency, and coordinate rail services within existing organisational framework;

(ii) make London Transport a nationalised industry;

(iii) set up a passenger transport authority which would take over London Transport and coordinate and distribute subsidies for all rail services in London and the south east and for bus services in London.

7. If the GLC were abolished, as many as possible of its highway and traffic responsibilities should be devolved to the boroughs and the remainder handled



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by a joint board or the Secretary of State for Transport.

8. The immediate issues for decision by Ministers are as follows:

- a. Whether to introduce early legislation to clarify the GLC's powers to give transport subsidies, subject to effective control;
- b. whether to extend control over subsidies to the metropolitan counties;
- c. whether such controls should be by clearer definition of the powers and duties of the local authorities and the transport executives;
- d. whether powers should be taken to provide that if they remained responsible for public transport the GLC and metropolitan counties could be required to secure efficiency;
- e. if not, whether control of London Transport should be removed from the GLC;
- f. if so, whether further consideration should be given to setting up a new passenger transport authority;
- g. whether the metropolitan county councils' transport responsibilities should be taken over by joint boards; and
- h. if so, whether all the necessary legislation should be included in a single Bill, or whether there should be a two-stage programme, with an early Bill covering subsidy powers and enabling powers to take control on an interim basis.



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SUMMARY OF MISC 79(82)1: THE GREATER LONDON COUNCIL AND THE METROPOLITAN COUNTY COUNCILS

This memorandum by the Secretary of State for the Environment covers a report by officials, which was the subject of the Secretary of State's minute of 16 April to the Prime Minister about the possible reorganisation of local government services if the Greater London Council and the Metropolitan County Councils (MCCs) were abolished. It recalls the conclusion of the minute of 16 April - that colleagues responsible for the functions which would be affected should arrange for studies to be undertaken of the consequences of abolition. It promises a further report to MISC 79 at the beginning of July when those studies are ready, but suggests a preliminary discussion in MISC 79 on the basis of the existing report.

The Report by Officials

2. The report by officials is dated March 1982, and was therefore prepared before the results of the studies of transport (by MISC 70) and the financing of education (by the Department of Education and Science) were available. Its conclusions are explicitly provisional. It suggests that units larger than the present boroughs or districts would be required for:

Education in Inner London;

Transport;

Strategic land use planning;

Police in the MCCs;

Fire.

Most other functions could be made the responsibility of the boroughs or the districts, perhaps with collaborative arrangements in some cases.

3. The services needing to be organised over wider areas than boroughs or districts could be organised in various ways. The main types of possibility are identified as follows:



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- a. Voluntary joint committees;
- b. Mandatory joint committees;
- c. Joint boards;
- d. Specially created, directly elected, bodies;
- e. Central Government assuming responsibility, perhaps acting through appointed bodies.

Under a. and b. the local authorities who took part would retain the formal powers (including powers of finance); under c. and d. the new bodies would have the powers and would raise their own finance (essentially by levy or precept). Different arrangements would have different implications for accountability and for efficiency and effectiveness.

4. Potential savings in manpower from any new arrangements are hard to estimate. They would probably be small initially but should grow in the longer term.

5. A local sales tax could not be operated at the level of boroughs or districts. If the GLC and MCCs were abolished, local sales tax could not be regarded as a possible replacement for domestic rates.

6. Abolition of the GLC and MCCs could lead to pressure for further changes from major non-metropolitan districts.

7. The initial preference of officials under any new organisation is that functions should be transferred to the maximum possible extent to single-tier, multi-purpose authorities, with use of joint bodies only where operational needs could not otherwise be met.

8. Legislation could not be ready for introduction before the autumn of 1983. The earliest date for the abolition of the GLC and MCCs would therefore be 1 April 1985.

9. The bulk of the report is devoted to detailed examination of individual services.



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SUMMARY OF MISC 79(82) 5 : THE FINANCING OF EDUCATION

This memorandum by the Secretary of State for Education and Science (originally circulated, in effect, as his letter of 6 May to the Home Secretary) covers a report by officials considering possible changes in the financial responsibility of local government for education services. It rejects 100 per cent Exchequer financing of the whole of education, or of teachers' salaries, mainly on the grounds that either of these courses would require a massive increase in the number of civil servants and reduce the freedom of local government to an unacceptable degree.

2. It recommends instead the institution, perhaps from 1984-85, of an education grant: that is, a general form of Exchequer support for expenditure on education based on an assessment of local spending needs. This would be combined with limited powers of specific grant for purposes such as training more teachers in shortage subjects or providing additional facilities for the young unemployed. It suggests that such a system would:

(i) encourage a more even pattern of educational expenditure relative to need;


(ii) encourage local education authorities (LEAs) to have more regard to Government priorities and to manage resources more effectively;

(iii) enable the Secretary of State for Education and Science to promote innovations; and

(iv) better reflect his statutory responsibilities.

3. If Ministers so wished, the level of education grant could be increased to, say, 75 per cent so as to allow local authorities to reduce their rates; but there would be powerful built-in deterrents to overspending. The memorandum suggests that this would be more effective than increasing the percentage of Rate Support Grant.

4. The memorandum disclaims any intention of securing an increase in local authority expenditure on education.


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5. The Secretary of State says that he is studying the possible introduction of education vouchers in the longer term; but he recommends education grant as the best way of making immediate progress.

THE REPORT BY OFFICIALS

6. The memorandum is accompanied by a report by officials of the Department of Education and Science in consultation with representatives of other Departments. This argues that present financing arrangements do not well meet the objectives outlined at paragraph 2(i) to (iv) above, and that this constitutes a strong case for change. The report stresses the wide variation between levels of expenditure on education by different English LEAs in broadly similar circumstances. It draws unfavourable comparisons between the ability of the Secretary of State for Education and Science to influence education policy and the ability of the Home Secretary, through police grant, to influence the provision of police services.

Rejected Possibilities

7. The report discusses, and rejects, the following possible changes:

a. Increasing fees and charges

Any extensive change in this direction would require a fundamental restructuring of the educational system; and the implications go beyond the scope of the report.

b. One hundred per cent Exchequer Financing

This would increase the influence of the central government over education policy. But the role of the local authorities would be drastically reduced; and this would probably reduce the effectiveness of the local education service. It would greatly increase the detailed involvement of the Secretary of State.

c. One hundred per cent Exchequer Financing of Teachers' Salaries

Many of the arguments relevant to 100 per cent Exchequer financing of all educational expenditure would apply here. The Secretary of State would be drawn into detailed discussion of staffing levels (and redundancies);

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and the balance between expenditure on teaching and non-teaching costs would tend to be distorted.

The Education Grant

8. The report suggests that the best way of meeting the objectives outlined in paragraph 2(i) to (iv) above is to introduce a new education grant. This would be related to each LEAs expenditure on education. As with block grant, the education grant system would be based on assessment of grant-related expenditure (GRE). DES officials consider that assessments of GRE are better based in the field of education than they are generally, and that the education grant system could and should seek to encourage LEAs to spend within (say) 5 per cent of their education GRE. The report specifically mentions the possibility of imposing negative marginal rates of grant on LEAs' spending significantly above their GRE: by implication, low-spending authorities would also be encouraged to increase their education expenditure so as to come more closely in line with their GRE.

9. If the Government wished to reduce the amount of finance raised through local rates it could increase the level of education grant, though the possibility is recognised that this could lead to an increase in expenditure rather than a reduction in rates.

10. Education grant would influence total expenditure on education, not the way in which the money was spent. In order to encourage initiatives in areas of national priority, there should be power to pay specific grants on carefully defined criteria: total specific grants should form only a small part of education grant.

11. Education grant would be administered by the Department of Education and Science. The existence of two separate grant systems for local authorities - block grant and education grant - would entail some additional staff costs in both central and local government. A number of technical questions would need to be decided concerning the relationship between the two grant systems; and there would be significant shifts in the distribution of Exchequer grants



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between local authorities compared to the existing position. There would also be additional complications in the Public Expenditure Survey and in the Parliamentary handling of the two grant systems.

Scotland and Wales

12. The report suggests that although the arguments for introducing a similar (not necessarily, or even probably, identical) system in Scotland are weaker than in England (in particular, the Secretary of State for Scotland already exerts considerable influence over the Scottish education system) they are still strong. There are arguments both for and against making changes in Wales; the report suggests that the decision is essentially political.

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