

Prime Minister 2A



For discussion with
the Chancellor after the

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

holidays ?

cc B/ep
cc B/G

PRIME MINISTER

N.L.W. ✓
6.8 MB

At one of our bilaterals last month we discussed the education problem, and you asked me if there was a Treasury official with whom you might usefully go over the ground. You may be interested in reading the attached paper, which has been largely written by John Anson, a deputy secretary here, following discussions he has had with me. It has also been seen by John MacGregor and a small number of Treasury officials, including Robin Butler.

I hope you find it helpful. I should be happy to discuss it with you in September. You might also like to have a session with John Anson yourself. In the meantime I would just add this. Our continuing frustrations over education reflect the fact that the existing arrangements are fundamentally and irretrievably flawed. The reform needed is so radical that it is not for this Parliament; but we must not delude ourselves on that account that anything short of this will do. What it does mean is that what we do in the meantime must be compatible with this new approach. And there is the great prize that the way ahead outlined in this paper provides a solution not only to the education problem that concerns us so much, but also to the local government problem (including the local government spending problem) that has come increasingly to plague us.

N.L.

N.L.

5 August 1986

SECRET AND PERSONAL
SCHOOLS - THE WAY AHEAD

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

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

3. The problem is not one of lack of resources. DES themselves say that their main aim is "to use more effectively the 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 1979-80. The problem is how to make the best use of this money. ILEA spends half as much again per pupil as 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 effective 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. 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 complete freedom to negotiate agreements on pay with the unions, which central government is then obliged to accept and is under pressure to finance. They have no concern at all for the Government's public expenditure targets, nor does rate-capping seem to have been very successful in controlling their spending. There is little 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: quite apart from the political problems, local authorities would be quick to challenge in the courts any attempts by Government to use the withdrawal of grants to impose its own priorities.

(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 recommend the mixture of pay and conditions of service the Government sought; nor in any case, would there be any way of ensuring that local authorities implemented the recommended conditions of service, even if it did.

? in case?
Agency?
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 vested 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 or 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, small groups of not more than, say, 10 schools could be set up 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

P10 - what - resources

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. 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 transfer the counties' responsibilities for police and fire to the centre, to transfer personal social services and further education to the districts, and to 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).

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 only to an overriding control on their borrowing). 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

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 rearranged 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 could at last 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 level of the individual school.

MINISTERIAL PRIORITIES REVIEW
STATEMENT OF OBJECTIVES (Extract)

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.

SOME SCHOOLS STATISTICS

	£m 1986-87 provision	Real Change since 1980 %
--	----------------------------	--------------------------------

B1 Public expenditure (main items)

DES -

Schools (England)	8628	-8.3
of which, paybill	5007	+2.6
Administration (LAs and DES; England: all education) of which, 80% pay	550	

MSC -

Youth training including schools (GB)	1082	+260
---------------------------------------	------	------

B2. School rolls (England)

Primary school numbers fell by 24% 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.

B.3 Unit costs in schools (England)

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.

Unit costs vary considerably more than different needs could justify. Thus (1984-85, England)

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

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 Haringey £1155 (outer London average £865). Secondary unit costs in Dorset are £960 (shire county average £1020) and again in Haringey are £1615 (outer London average £1250).

B4. International comparisons of unit costs

The figures below show expenditure per pupil in schools and non-advanced further education. They show spending in the UK broadly the same as in France and some 85 per cent of that in Germany, although the German figures over-estimate actual unit costs (see note (2) below).

Country	Year of data	£ 1983 values
		Unit cost
UK	1983	1030 ⁽¹⁾
France	1980	1020
Germany	1982	1210 ⁽²⁾

Source: UNESCO, converted to 1983 values using OECD purchasing power parity factors.

Notes: (1) Based on FTE pupil/student numbers. Excludes private sector schools and colleges.

(2) Excludes 1.8m students in part-time vocational education, although expenditure on these students is included in total expenditure.

LOCAL AUTHORITY CURRENT EXPENDITURE (1986-87) - ENGLAND

£ billion

<u>Income</u>		<u>Expenditure</u>	
Rate Support Grant	9.0	Education*	11.5
Specific grants	2.8	School Meals	0.4
Aggregate Exchequer Grant	11.8	Libraries	0.4
Non-domestic rates	8.4	Personal Social Services	2.7
Domestic rates	6.4	Police	2.9
Use of balances	0.2	Fire	0.7
		Magistrates' courts and probation	0.4
		Transport	1.9
		Local Environmental Services	2.7
		Other	0.6
		Total Current	<u>24.2</u>
		Loan charges etc	2.6
Total income	<u>26.8</u>	Total Expenditure	<u>26.8</u>

* of which schools and related administration is estimated at 9.6.