



PRIME MINISTER

FINANCIAL DELEGATION TO SCHOOLS

Prime Minister
Para. 12 of the summary focusses on the costs of implementation, without suggesting the possibility of savings once a delegated system is in place.

Content, subject to the S. of S. ensuring that the second element is taken into account in his future considerations? Alec 14/1

1. I am minuting to let you and colleagues know that I shall be publishing on Monday 18 January a report submitted to me by Coopers & Lybrand Associates. It is the outcome of a management consultancy which I commissioned on financial delegation to schools last summer.

2. The report, under the title "Local Management of Schools" is both informative and helpful to our current initiatives. I attach a copy of the consultants' summary, and will send you and colleagues a copy of the full report when available in final form on Monday.

3. The report expresses strong support for our central policies on greater financial delegation. Not surprisingly, it raises a number of issues - for example, on the initial costs of introducing schemes of financial delegation - which I will need to consider further. Nevertheless, it contains guidance which will provide the basis on which local education authorities and schools can begin to make preparations. We are therefore sending the report to local education authorities with a letter encouraging them to move ahead immediately in developing draft schemes of financial delegation.

4. I propose to announce the publication of the report on Monday in the terms of the attached Written Answer, and to send copies to members of Standing Committee J and ESAC.

5. I am copying this minute and the attachments to members of E(EP) and to Sir Robin Butler.

[Signature]
KB

Department of Education and Science

14 January 1988

LOCAL MANAGEMENT OF SCHOOLS

SUMMARY

1. The Education Reform Bill proposes that there should be greater delegation to schools of responsibility for financial and other aspects of management. Delegation of managerial responsibility is one of the cornerstones of good management practice. It carries with it the requirements for an LEA to set objectives for their schools, to allocate resources to them, and then, by means of monitoring their performance, to ask schools to account for their achievements and their use of resources. At the school level, it marks a change from local administration to local management.
2. The changes require a new culture and philosophy of the organisation of education at the school level. They are more than purely financial; they need a general shift in management. We use the term 'Local Management of Schools' (LMS).
3. The underlying principle is that responsibility for the management of resources should, as far as possible, be delegated to schools. Limits on such delegation can arise in several ways: the LEA has continuing responsibility for the education (and support service) provision in its area and other local authority policies may impinge on the education service; there are also practical questions to be considered such as the potential loss of some economies of scale and the sheer mechanics of operating a delegated system.
4. We examined each component of school resources against the underlying principle and these other factors. Our conclusion is that responsibility for the vast proportion of a school's resources can and should be delegated to the school. The table at the end of Chapter 2 provides a summary.
5. To arrive at our conclusions, we developed a number of conceptual models to help clarify the issues. For teaching staff, we think the LEA role can be envisaged as that of a staffing agency for the schools, supplying staff to schools and charging them for the supply; the charge can be adjusted to take account of vacancies and supply cover. For goods and services of a 'contract' nature, the relationship can be envisaged as a customer/contractor one, with the school (as customer) having the facility to choose the source and level of service it requires. Similarly advisory services can be viewed in customer/contractor terms, but for most of the services the LEA is as much the customer as the school is. Until LMS has matured, we suggest that it would be too difficult to disentangle these roles; the responsibilities should remain with the LEA for the time being. For premises, the relationship can be seen as that of landlord and tenant, which suggests a split in responsibilities - a split which is not always easy to define.

6. There are complications with a number of the above generalities. These include the precise basis for determining the charge for teaching staff, the complexities introduced by the expected competition legislation, potential changes in the role of the advisers/inspectors with moves toward the latter, and the community use of school premises. We also think that some of the present restrictions on capital expenditure will need to be relaxed to allow LMS to operate with maximum effectiveness.

7. We found it impossible to consider LMS without reference to the nature of the resource allocation formula, despite this being outside our remit. The nature of the formula will help determine which activities can become the schools' responsibility and which must remain with the LEA. At least in the early years, we think that most LEAs will need to develop a formula with three components; the primary component will be pupil number driven, where pupil numbers would be weighted by various (and variable) factors to reflect 'need to spend'. The second component will be a flat rate, different for each school, which will be mainly linked to the need to spend vis-a-vis premises. There is likely to be a small third component to reflect special activities, for example the costs to the school of community use. In addition we suggest that schools should be encouraged to bid to their LEA, and elsewhere, for funds for particular projects.

8. The operation of LMS will remove from LEAs the detailed control of most school activities. It will replace that control with a clearer responsibility for setting objectives for schools and for managing the school system as a whole. We hope and think that most LEAs will welcome the chance to increase the focus of their efforts on major policy issues.

9. The LEA will still need to set the framework for school provision in its area and to determine the overall level of resources to be devoted to schools. It will also need to define the formula which allocates those resources between schools; this will not be easy. In addition to providing advice and support to schools, the LEA will also need to monitor its schools' performance and take action if required.

10. The greatest change will occur in schools. LMS will succeed only if there is a positive attitude to it from the head, the staff and the governing body. It will require a recognition that it is school management that is needed, not simply an increase in administration. We have no doubt that schools will need help not only for a considerable transition period, but on an on-going basis. Some of the help will take the form of professional advice and support from the LEA, some will take the form of resources for school-based assistance.

11. Critical to the successful operation of a full LMS scheme will be management information and information systems. Without these, the burdens on school staff could become intolerable, swamping the benefits of LMS. The LEA too will need management

information which should be a subset of the information needed by the school itself. An important component of the overall information needed by a school will be the signals from its 'clients'; LMS is designed to enable schools to be more responsive, schools will need to devote thought to defining to what it is that they are seeking to respond.

12. To implement LMS across the country will not be cheap. It will require both staff time and cash. The largest single component of staff time will be for training individuals for their new roles and responsibilities: local authority members and officers, governors, heads and staff. It is positive attitudes on which LMS will stand or fall and these can only be achieved with adequate training. As with most training, the main costs will be the opportunity costs of staff time but there will also be the cash costs of any staff cover and of the trainers and training materials. Staff time will also be needed to devise the scheme and the information systems on which it will depend; this will also have cash costs. There is also likely to be pressure for increased costs from the operation of any safety nets in the transition process.

13. Nor do we think that the implementation of LMS can be rushed: attitudes take time to change. By learning from early developments, we think that a 3-4 year timetable is reasonable. However, we think it should be possible for each LEA to develop and define its scheme within 12-18 months. Some are well down the path already. But for those which are not, there is no time to lose; a fast pace will be needed - it will be difficult to make up for a slow start.

14. We therefore suggest that LEAs start their development thinking as soon as possible - without waiting for further guidance. The initial steps are, we suggest: to set up an LMS team; to define lists of those functions which will, those which will not, and those which might be delegated; to start identifying a statement of user requirements for information systems; and to start developing resource allocation formulae so that the effects can be modelled.

15. We are under no illusion that many LEAs will find the process difficult and perhaps even unsettling. The tasks are not easy, nor are some of the decisions which will be needed. But the result, if done well, will help produce a more responsive and effective school system.

DRAFT PQ

...(Cons...): To ask the Secretary of State for Education and Science, if he has yet received the report by management consultants on financial delegation to schools; and if he will make a statement.

MR KENNETH BAKER

The Report on "Local Management of Schools" by Coopers & Lybrand Associates is being published today. I welcome the Report as an important document. It contains encouraging evidence of the benefits of financial delegation, and valuable advice on the practical steps needed to implement the Government's policies on financial delegation, as embodied in the Education Reform Bill now before the House. The Report will be studied carefully by my Department, and deserves to be read by all those with an interest in this field.

I am sending copies to all local education authorities in England and to other interested bodies. My rt Hon friend the Secretary of State for Wales is doing likewise in Wales. I have placed copies in the Libraries of both Houses.



file MJ
re BG.

10 DOWNING STREET
LONDON SW1A 2AA

18 January 1988

From the Private Secretary

Dear Chris,

FINANCIAL DELEGATION TO SCHOOLS

The Prime Minister has seen your Secretary of State's minute of 14 January.

She is content for announcement of the publication of the report to be made in the terms proposed. But she has commented that she hopes the further consideration of the report will focus the long term savings from greater financial delegation to schools as well as on shorter term implementation costs.

I am copying this letter to the Private Secretaries to members of E(EP) and to Trevor Woolley (Cabinet Office).

*Yours,
Paul*

Paul Gray

Chris de Grouchy, Esq.,
HM Treasury.

Paul



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My ref:

Your ref:

21 January 1988

Ken Kenneth

FINANCIAL DELEGATION TO SCHOOLS

Thank you for copying to me your minute of 14 January to the Prime Minister and the summary of the Coopers and Lybrand Report. *pat clap*

I agree that the general tenor of the Report is helpful, but there are 2 aspects which cause me some concern. Most importantly, I am concerned about the implications of the conclusions for the funding of Grant Maintained schools.

Our position so far has been that schools which opt out should be neither advantaged nor disadvantaged in their funding by that decision. The mechanism you proposed for this was that Grant Maintained schools should receive funding according to whatever formula was determined for the Local Management of Schools (LMS). The Consultants' Report now suggests that the formula should include 3 elements:

- the premises element;
- the special activities element; and
- the special projects element,

which will be discretionary. If this view were to be accepted it would raise a number of issues, not least how you would exercise your powers to approve formulae. For Grant Maintained schools, the Secretary of State would have to be in the position of deciding those discretionary amounts. That has implications for the degree of DES control over the new independent sector, but I am more concerned about the impact on local accountability.

Our original proposals would have maintained our position on accountability because the amount paid to Grant Maintained schools would effectively have been determined by the LEA. A formula with significant elements of discretion which would be exercised differently by the Secretary of State and the local authority would not have that result. And since we will be recharging the grants to Grant Maintained schools £ for £ to the LEAs, we will be introducing a further element of local expenditure for which the authorities can disclaim responsibility.

It would be helpful to know where your thinking on the funding of Grant Maintained schools now stands and how you are relating that to the local management issues. Perhaps we should review those issues before taking any public view on the Coopers and Lybrand Report and the local management arrangements.

I am copying this to the other members of E(EP) and Sir Robin Butler.

Nicholas Ridley

NICHOLAS RIDLEY

