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cc B/G

NBAH at this stage.
B/F in one week.
PRC6
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The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

1 February 1988

John Hill

FINANCIAL DELEGATION TO SCHOOLS

Asap.

Thank you for your letter of 21 January.

I do not think the Coopers and Lybrand Report should give us cause for concern, either on the substance or as regards handling. As to substance, the Report uses the term "formula" in a broader sense than it is used in the Education Reform Bill (ERB). In Bill terms, the formula determines the allocation between schools of resources to be spent at those schools, described as the "aggregated budget". Certain items of expenditure remain outside the aggregated budget. These will include expenditure on central services; and could include contingency funds which LEAs may wish to propose for curriculum development initiatives, redundancy costs etc - and which, if agreed as part of LEAs' schemes when submitted to me for approval, would cover what Coopers and Lybrand call 'special activities' and 'special projects'. Such elements are described as "excepted services". LEAs will be obliged under Clause 31 of the ERB to publish information for each school on their planned expenditure per pupil on excepted services as well as on the product of the formula per head for each school. It is this information that I would propose to use in determining the budget for a school, should it become Grant-Maintained.

Coopers and Lybrand propose that the "general costs" of schools - representing perhaps 85% of their total costs - should be distributed by reference to pupil numbers, with weightings for age and other factors. The remaining element relates to premises costs. On these the report is simply observing that there may be a need to exercise judgement to take account of some of the more extreme differences in the circumstances of particular schools. But it should be possible for such judgements to be reflected in an

arithmetical form - and then read across to Grant-Maintained schools as appropriate.

As to handling, I have made it clear that the Coopers and Lybrand Report is an independent one. It is a valuable source of advice. But as the Report acknowledges itself, specifically in relation to formulae, further work and guidance is required. A number of bodies are already engaged in relevant work - among them, in particular the Audit Commission. In the light of this further work and detailed consultation with those concerned, I will need to give guidance on the criteria for the approval of LEAs' formulae and aspects of their schemes of financial delegation. Certainly I do not see any need at this stage to change my view as to the funding arrangements for Grant-Maintained Schools.

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

*Y
Lynn*

Kenneth