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PRIME MINISTER

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COMMUNITY CHARGE CAPPING: IMPACT ON SCHOOL BUDGETS

Next year's capping exercise is likely to be much more extensive than this year's. That will be essential to keep charges down.

But careful thought is needed about what this means for delegated school budgets in the first full year of LMS (in the capped authorities). Widespread cuts in school budgets will be blamed on Government policy. They will create major political difficulties. And the crunch will come next April and May.

Is there some way of protecting school budgets so that cuts in 'education spending' because of capping are concentrated on LEA bureaucracies and not classrooms?

We think you need to ask Chris Patten and John Macgregor to consider this urgently. Difficult it may be but we cannot afford to leave any stone unturned.

Background

This year's capping gave rise to fears that capped authorities would have to impose reductions in school budgets, even though these had already been set for the year and delegated to schools under LMS. Whether authorities could legally do this was raised during the judicial review, but the Appeal Court confirmed that they do indeed have the power, under the Education Reform Act, to reduce delegated school budgets in-year if they so want.

The Position next April

More extensive capping will move the issue far beyond the Haringeys and Lambeths of this world (where cuts are hardly news any more) and into a wide range of more 'ordinary' authorities.

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At the forefront of the controversy will be education. For counties and metropolitan districts, education is such a large proportion of spending that, if capped, they will have no choice but to look for reductions in it. The issue is whether such reductions can be found while leaving the classrooms unscathed.

Concern about this is already growing among parents and governors. This concern will widen once Chris Patten publishes his capping criteria later this month. And it will quickly mesh into the whole debate about education resources.

Sensible authorities facing capping would focus on the considerable proportion of what they spend on school education which is not delegated to schools, and in particular their administrative costs. In many cases the portion not delegated is 30% or more of the total schools budget (see example at Annex A). Another telling measure is that in 1989 LEAs in England and Wales employed, on top of 537,000 lecturers and teachers, no less than 406,000 'other education staff'. This is where any cuts should fall.

But there will no doubt be a number of authorities which deliberately focus cuts on schools in order to create maximum discomfort for the Government.

POSSIBLE OPTIONS

There are two possibilities:

- amending legislation to protect delegated school budgets. It needs to be checked whether the short bill to deal with the Lambeth case could possibly be a vehicle for this;
- publicity and exhortation so that people understand just how much "education" spending does not go into the classroom, and therefore how much scope there is for town hall cuts. Figures such as those for Merton at Annex A do not seem to be generally known (this includes the chairman of Merton's

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education committee!)

Publicity of this kind will create pressure on authorities faced with capping to tighten up at the centre. But is it enough? The legislative option needs to be explored too.

Advantages and Disadvantages of Legislation

First, the advantages:

- it would concentrate the minds of councils to think even harder about setting low budgets to avoid capping since cuts would fall on the educational bureaucracy not schools;
- it would impose discipline on those LEAs probably most in need of it by forcing down the number of administrators, coordinators and advisers. It would also help expose just how much of the schools budget is held back by LEAs;
- it would provide enormous reassurance to parents and schools;
- if capping is extensive, it would be crucial in avoiding a whole series of schools being thrown into disarray through suddenly reduced budgets (and the timing of this possibility, from next April onwards, needs to be borne in mind);
- it would back up the longer-term objective of reducing the role of LEAs.

Second, the disadvantages:

- if the Lambeth bill is not an option, legislation may simply not be practical;
- it would further encroach on authorities' freedom to manage

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their 'own' resources. The Government would be requiring them to make cuts and then also telling them that the largest individual component of their budgets was sacrosanct. However important school budgets are, this would be a difficult imposition for central government to put on local government. It would be argued that even if the Government can say a budget is excessive and demand cuts, where the knife falls should be a matter for local political choice;

- it could possibly create new scope for legal challenge to the Government's capping powers;
- LEAs might try to defeat the purpose of the change by setting lower delegated budgets at the outset. But because school budgets are formula driven, and relate in large measure to teachers' salary costs, the freedom to do this would be fairly limited. In any case they would face an outcry from parents and teachers if they tried.

But after capping, the situation is different. LEAs could blame the Government and say they had no other choice.

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CONCLUSION AND RECOMMENDATION

There are political pros and cons here which need to be weighed carefully by colleagues.

But we do feel strongly that options need to be explored, because of the real chance of trouble on this next spring.

We recommend that you ask Chris Patten and John Macgregor, in consultation with the Law Officers

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- to assess the likely impact of extensive capping on delegated schools budgets;
  - to consider whether there are any realistic options for

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protecting them from capping cuts.

John Macgregor also needs to be asked whether reduced education budgets after capping could affect what he can pay to grant-maintained schools in capped areas. Would he be obliged to reduce grant in line with LEA spending? And if so, is there any preventive action he can take.

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LONDON BOROUGH OF MERTON: 1990/91 GENERAL SCHOOLS BUDGET

Although Merton is now Labour-controlled, this year's budget was fixed by the outgoing Conservative administration and is fairly typical for outer London.

Merton's General Schools Budget is £52 million. This is the total direct and indirect costs of schooling in the Borough for about 21000 children: about £2500 per head.

What is actually delegated to schools is £30 million: about £1430 per head. The rest stays with the LEA. A good part of this is capital expenditure and interest charges, and other legitimate expenses such as school transport and meals.

But "central administration" plus inspectors and advisory teachers - ie the town hall army - alone is costing £3.5 million or £166 per child. And this is a fairly lean authority. In many boroughs this element will be much higher.

This is probably where the chief inefficiencies lie and if there have to be cuts, this is where they need to be focussed. But the danger is that local authorities will find it much easier to cut a teacher from each school than to put the knife to their own town halls.