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CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON LOCAL GOVERNMENT FINANCE

LOCAL GOVERNMENT FINANCE AND EDUCATION

Memorandum by the Secretary of State for Education and Science

1. Conservative Governments have tackled the reform of local government finance before - in 1929, in 1958, and in 1980, when we ourselves introduced significant changes. None of those reforms was entirely successful. If we are to succeed this time, we shall need to be clear about our objectives and how they will be achieved by our proposals.
2. As a party, we are sceptical about the centralisation of power. Indeed, our ideal is the ability of the individual to take responsibility for his own life. That has not necessarily made us supporters of local government. We would like to push power further down. To some extent we can achieve that - for example, in my proposals to give greater responsibility to school governors, including parents. But we must take the world as we find it. It has not proved practicable, for example, to introduce the radical alternative of education

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vouchers. If the choice has to be between centralising the education services and leaving it in the hands of local government, I have no hesitation in opting for local government stiffened by effective policies on teacher training, appraisal, the curriculum, examinations and inspection.

3. Centralisation would destroy local accountability for standards; discourage local innovation; require a large new central bureaucracy and expose government to endless local dilemmas and criticisms without necessarily delivering greater efficiency or better management. Nor are the difficulties significantly reduced if, as some have suggested, central government assumed responsibility for meeting the cost of teacher's salaries, which currently account for more than half of local authority expenditure on education. Making central government responsible for paying local government's employees would create great difficulties in defining a stable and practicable division of responsibilities. In order to avoid an open-ended Exchequer grant, we would have to determine staffing complement centrally and would thus be drawn unavoidably into local management of the teacher force. Although some significant responsibilities would remain with local government, little effective local discretion would remain. This confusion of responsibility would destroy accountability and be totally at odds with the underlying principles of the FMI.

4. If important services, including those like education with a national dimension, are to be run by local government, we need a system that is responsive both to the needs of local people and to their ability to pay for services. That implies a system in which the expenditure decisions of local authorities have a direct impact on all, or most, of the local electorate, so that the costs as well as the benefits of local services are brought home to the local voter.

5. The present system of local government finance falls far short of this, for two reasons. One is that local authorities have access

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to non-domestic rates, and the payers of non-domestic rates have new votes. Particularly in London, this has enabled Labour councils to finance extravagant expenditure without regard to the ratepayer. The other is that domestic rates fall on only a minority of electors - many electors are not householders, and many receive rate rebates.

6. I agree with Patrick Jenkin that retaining the present system of local government finance is not an option. In our attempts to make it work, we have obscured the basic block grant system by adding an incompatible system of penalties to it; and then, since that was ineffective against the most extravagant authorities, we introduced rate-capping. But, even though this year most of the rate-capped authorities have now fallen into line there has been no change of heart from those authorities and there is no prospect of securing stability in the future. Instead local voters are coming to blame the Government rather than the councils for continuing confrontation. So far breakdown of services has been avoided, but it must be doubtful whether that can continue indefinitely. We need a system that relies less on heavy-handed intervention by Government.

7. What features should a new system contain? With Patrick Jenkin, I believe that they must include:

- the setting of a standard non-domestic rate across the country and the redistribution among authorities of the resulting income. This source of revenue cannot be given up entirely, because there is no obvious replacement; but there is no effective way in which councils can be made accountable to non-domestic ratepayers, so it would make little sense to leave this as an independent local source of income.
- a simpler and more open central government grant in support of authorities' expenditure needs as assessed by Government, but not in support of marginal expenditure.

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- local taxation that bears on most or all electors, and carries the full weight of marginal expenditure.

8. The role of central government needs to be defined as well as that of local government. It seems to me that:

- Government has national priority objectives for some services, especially education, which can only be achieved by working with and through local authorities. We must be able both to set the framework for effective local democracy and to set out national priority guidelines. In my view, this implies a substantially larger role for specific grants in the new system.

- Government is accountable to the taxpayer for the revenues raised from national taxation. It must therefore be able to ensure that the proceeds of national taxation are used effectively in pursuit of national objectives.

- truly local services (such as parks or refuse collection) should be subject only to local control. All that Government ought to do is to ensure that local voters and local taxpayers are in a position to judge whether they are getting value for money. The Audit Commission has a vital role to play here. Greater Government intervention should be unnecessary if we can devise a local taxation system which brings about real accountability of local authorities to their electorate.

9. How might education, the largest local government service, fit into a system based on these principles? If we wish to ensure implementation of the clear national policy objectives that we are developing for education (outlined, for example in our White Paper, "Better Schools") it will be essential to bring the partnership between the Secretary of State and the local education authorities (LEAs) into better balance. In recent years, the balance has tilted too far towards local discretion at the expense of national objectives.

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It is my belief that the partnership could be brought closer to the original intentions of the 1944 Education Act and greatly strengthened if the holder of my office became responsible for the total of Government grants in respect of education, both specific grants and an unhypothecated needs grant. That would make the system clearer and simpler and enable direct negotiation with the LEAs about the implementation of national priorities supported by Government grant. It would be highly desirable for LEAs to implement such priorities voluntarily and in their own way; but the Secretary of State would be able to insist that, if they did not do so, he would withdraw some of the unhypothecated grant from all LEAs and turn it into a specific grant for all dependent on their policies conforming to national guidelines. I would in any case have it in mind that a higher proportion than at present of total local authority expenditure on education would be supported by specific grants.

10. If we had had such a system in recent years, I could have made much faster progress in, for example, the reduction of expenditure on school meals. I could also have been more successful in protecting expenditure on books and educational equipment and been able to press ahead more vigorously with my policies to raise standards in schools. Such a system would now help greatly to implement the policies in "Better Schools". The financing of education would become more flexible than it is now, and this would help to ensure that support from national taxation was used effectively and in the interests of better value for money. I therefore urge colleagues to agree that specific education grants be made part of our reform proposals.

KJ  
Department of Education and Science  
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