

11 March 1983

Policy Unit

PRIME MINISTER

THE FINANCING OF EDUCATION

Transferring some major part of local government expenditure on education to the Exchequer is the only way of making a major reduction in that expenditure. If we do not make a transfer, Tom King points out that we should not be able to offer an initial reduction of rates by April 1985. Without this, we should have to rely on control alone and so be forced to choose between (a) a simple control system (eg a 5% ceiling on increases in your rate bill) which would be open to repeated legal challenge all over the country; and (b) a more complex control system based on an equitable formula as between one authority and another, which would not have the same effect on every individual's rate bill and so would inflame rather than dispel public dislike of the rating system.

I believe it is a vital first step in reducing the size of local government expenditure that we should transfer some sizeable slice of the education bill to the Exchequer. Otherwise the problem will never become manageable. Keith Joseph considers four options.

(i) Transfer school teachers' pay to central Government

Keith rejects this because he fears that it would require him to consider each local authority's complement of teachers and so draw him into conflict and heap the blame for unpopular decisions on central Government. These fears seem exaggerated. The existing complement would be taken as the datum line and extra demands for teachers could be assessed against explicit criteria (such as growth of population, or shortfall of maths teachers). You could even introduce a national pupil-teacher ratio to settle arguments about fairness. In any case, potential extra blame accruing to the Government would be offset by the clear responsibilities which the local authority could then have for everything (building, textbooks, etc) except teachers' pay.

The idea of a national pupil-teacher ratio is not so daring or novel when you consider that the DES spends a lot of time and effort in trying to achieve some rough equality between the schools expenditure of different local authorities. Moreover,

with some such rule of thumb, any increase in DES staff could be held to a minimum.

(ii) Transfer all local authority expenditure on education

This would be far too centralist and would be highly unpopular in a way that the transfer of teachers' pay would not be.

(iii) Introduce an education block grant

This would merely increase Government responsibility for finding the money while still leaving local authorities essentially free to fix their own levels of expenditure, the worst of all worlds, particularly in Wales, as Nick Edwards points out in paragraph 13. Tom King also rejects the idea of an education block grant.

(iv) Introduce a radical voucher scheme

If we could agree on such a scheme, this would be the cleanest and fairest solution. Every local education authority would receive a cheque for £X per pupil and there would be no arguments.

The difficulty on vouchers is principally one of synchronising. If we were to start an E(LF) scheme by 1985, would a radical scheme be ready to start alongside?

The transitional problem

The idea of transferring education expenditure to the Exchequer was rejected by MISC 79, largely because of the transitional problem: how do you prevent local authorities from simply spending the money on something else?

There would have to be RSG penalties for those who failed to reduce their rates pro rata. ILEA, as the only education authority out of grant, would have to have its expenditure controlled.

We suggest that DES should be invited to produce a paper on how the transfer of teachers' pay to the Exchequer could be managed.