



CONFIDENTIAL

P 02144

PRIME MINISTER

Specific Grant Powers for Education

[MISC 122(86) 8]

MAIN ISSUES AND DECISIONS

1. The Secretary of State for Education and Science seeks agreement to taking a new flexible power in the Education Bill currently before Parliament to pay specific grants to education authorities.

BACKGROUND

2. The Group have recognised that a fundamental problem in securing change in the education service is the lack of any direct leverage over individual education authorities. At present the Secretary of State has no effective weapon to enable him to promote desirable improvements in, for example, pay structures, or to sanction authorities which fail to enforce teachers' contracts' or fail to secure changes in conditions which form part of a wider pay settlement. The extended use of specific grants, allocated at the Secretary of State's discretion, has been seen as one means of strengthening his hand.

3. At present the Secretary of State may pay only up to 1 per cent of local authority current education spending (worth just over £100m) through specific grants, for the purposes of financing innovative projects and more recently the lunchtime supervision arrangements. There is an understanding that this power will not be used to finance main stream education expenditure.

The Proposal

4. The Secretary of State proposes in MISC 122(86) 8 that he should have a new, open-ended power to make specific grants, with no legislative ceiling on the amount of expenditure. The power will be exercisable through regulations, after consultation with the local authority associations, and would be subject to a affirmative resolution by both Houses. The aggregate amount of grand would be determined in the normal E(LA) discussions.

5. The Chief Secretary and the Environment Secretary oppose the wider use of specific grants in principle. They argue that such grants undermine the general operation of the block grant system and cut across the principle of local accountability which underlies the Green Paper on rates reform. But this only serves to highlight the Government's dilemma. The education service is provided by local authorities; but of all the local services education is the one in which the Government has the clearest policy objectives of its own, and for which the Secretary of State is held responsible by the general public. Any system short of centralising education is bound to involve a degree of divided responsibility between local education authorities and the Secretary of State for the management and financing of the service.

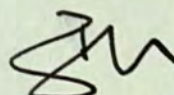
6. In practice much will depend on what proportion of education spending is to be funded by the proposed grant. The Secretary of State proposes an unlimited power and suggests no particular initial level of grant. Many of the objections might be overcome by specifying a figure - say 5 per cent, though this would be for discussion - which would make it clear that the main responsibility for financing the service - and hence for securing value for money - rested with the local authority while giving the Secretary of State considerable influence at the margin to secure compliance with the Government's policy objectives. The greater the percentage, the greater the damage to the existing RSG

systems, and the greater the Secretary of State's power vis a vis local authorities. The Group may wish to explore what level the Education Secretary believes would be sufficient to give him leverage, while meeting as many of the concerns of the Environment Secretary and Chief Secretary as possible. The present paper is somewhat thin on the precise purposes to which an increased specific grants flexibility would be put.

7. The paper is thin too on how the Secretary of State would envisage exercising his responsibilities in practice. If specific grants were to be an effective lever, he would clearly need to be able to form a view on the performance of each education authority in meeting the Government's objectives: and will no doubt have to be able to satisfy the courts that his decisions had been made on the basis of reliable evidence and after consultation with the authorities. All existing main stream grants to local authorities are allocated by reference to objectively measured criteria, and it would be a significant departure to base the funding of a substantial part of a core service (as opposed to pilot schemes or innovative projects) on a grant allocated by discretion. These issues will require much further consideration: unfortunately time is tight if the powers are to be introduced in the Education Bill this month. The Secretary of State might be asked to consider urgently in consultation with the Treasury and the Department of the Environment how the DES would operate a power in practice, and what resources would be needed for this.

HANDLING

You will wish to invite the Education Secretary to introduce his proposals. The Chief Secretary, Treasury and the Environment Secretary will wish to respond. The Lord President will have views on the Parliamentary handling.



J B UNWIN