

Financial Controls in Education Policy of the UK

Yoshihiro Nagata, Nagoya University, Japan

The Asian Conference on Education 2015
Official Conference Proceedings

Abstract

This paper examines financial controls in education policy of the United Kingdom, from the 1970s to the present days. The education policy is inevitably relevant with the financial policy. Since education policy is foundation of the state, not only the education policy becomes objective of sovereign control, but also the school budget, due to its big ratio of the national expenditure, becomes objective of rationalization for efficient use of the limited educational resource, therefore educational administration which must fulfill both objectives is ambivalent. In this paper, first, I scrutinize financial controls in the education policies starting from the early 1970s, reduction of the expenditure at local authority using rate support grant in the Thatcher Administration, the Audit Commission which opened the way of the intervention for the local governance by the removal of the further education from the local education authority and measure of strict school inspection in the Blair Administration, and finally financial control by the national funding formula in the Cameron Administration. Second, I analyze financial statistics of the national budget in order to show the reason of the rationalization of the school resource in the 1970s and reason of realization of the body corporate of the further education in the 1990s. Finally, based on these studies, I conclude remarkable characteristics of relationship between financial controls and the education policy in the U.K.

Keywords: Financial controls, education policy, audit commission, body corporate, UK

iafor

The International Academic Forum
www.iafor.org

Introduction

The subject about how the administrative education should be in the U.K. seems to have been mainly formulated by the financial factors. I mean this financial factor the domestic finance policy rather than market principle or neo liberalism. In this paper, I consider financial control which formulated foundation of the education policy and education policy itself. Before detailed discussion, I survey general administrative control in the U.K.

The control in the administration is authorized by various administrative tools, including the statute, grant and regulation, which local authority must implement in the principle of ultra vires. The ultra vires, meaning act which goes beyond the limit of the power which is conferred to the public body, is invalid. In fact, almost statute, which imposes duty to the local authority, confers discretion to the local authority to the extent that the statutory duty is implemented.

The administrative controls are classified by the following three categories: the financial control including audit and grant, the approval control including compulsory purchase, scheme, byelaw and appointment and dismissal of officers, and the directory and advisory controls including regulation, inspection and circular (Garner). As additional controls in the education policy since the 1970s, listed are the Audit Commission which guided education policies with overwhelming power from the 1980s and realization of the body corporate of the further education in the 1990s.

1. Financial Controls of Education Policies

The roots of the current education policies in the U.K. can be found in the financial policy and high cost-benefit rationalization of the educational resource from the early 1970s. In this section, I discuss financial controls influencing education policies in four parts: the rate support grant, the circular, the audit commission including body corporate and inspection and national funding formula.

1.1. Rate Support Grant

Hepworth showed a Table about proportion of relevant expenditure payable as grant which gradually moves upward until 1975/6 and then begins to fall (Hepworth, pp.55). In the early 1970s, under this prediction and anxiety, the central government started financial policy of the expenditure cut by the rationalization.

In 1971, Secretary of State for Education under Heath Conservative Administration, Margaret Thatcher, offered a plan to abolish free school milk and this plan was legislated as the Education Milk Act 1971. This Act is not only cut of public expenditure but also beginning of the rationalization, which leads to rationalization of the education resource in the late 1970s. The 1972 White Paper “Education: A Framework for Expansion” alleged a 10- year programme for educational advance including not only nursery, primary, secondary, special, polytechnics, and university programmes, but also teacher training, based on the James Report (1972), which cannot be realized without increasing expenditure and rationalization of the educational resource at the same time (www.margaretthatcher.org).

The Layfield Committee on Local Government Finance was established in 1974. The main concern of the Committee is problem of the decrease of the local rate ratio. In 1976, Layfield Committee intended to review the whole system of the local government finance and to make recommendation. The Committee raised a question whether central government should bear the responsibility or local government should do it (Hepworth, pp.57). In response to the Layfield Report, Green Paper, published by the central government in 1977, described relationship of the responsibility between center and local from the side of the central government (Hepworth, pp.292-293). The Green Paper presented the unitary grant in which the grant is reduced as penalty for the overspender, the local authority exceeding expenditure.

The rationalization inherited from the 70s was remarkably expressed in the Macfarlane Report in 1980. The excessive expenditure by the Labour controlled local authority was still main concern of the central government. The Thatcher Administration intervened to an unprecedented extent in providing manner of the service by the local authorities (Elcock). The control by the rate support grant was inherited from Labour Administration to new Conservative Administration in 1979. Before introducing the block grant, the central government asked local authority to reduce expenditure using the circular. The aim of the government is change from budget reduction of 3 percent in 79/80 to one of 5 percent in 80/81 (John). The budget cut by the block grant is legislated in the Local Government, Planning and Land Act 1980. This block grant, which allows each local authorities to spend by their own procedures, is based on concept of the equalization in a sense that each local authority can be compensated for differences in individual rate and individual expenditure, unless the expenditure goes beyond set level (Loughlin). In 1981, the government tried referendum on rate increase, but this trial was abolished (John). The Local Government Finance Act 1982 legislated rate capping which means limit of the rates the local authority imposes taxpayers. The main fields of the cutback in the employment from 1979 to 1983 are construction, transport and non-teaching staff (Kieron). In such financial circumstance, the Great London Council (GLC) and the Metropolitan county councils (MCCs) were abolished in 1983. The Rate Act 1984 allows central government to set cap individually. However, movement against rate capping led to dispute about Liverpool City Council Budget in 1985. In 1984, the education support grant was also legislated (John). The rate capping was abolished in 1985. In 1986, Rate Support Grant Act was legislated. The Local Government Finance Act 1988 introduced poll tax but this tax was abolished.

1.2. Circular

The circular is one of controls by the government. The Thatcher Administration, clarified strategy of reorganization of school using Circulars, motivated by declining pupil numbers at the primary school and the secondary school. In the Circular 2/81, the Secretary of State expressed a scope of reorganization of schools “for faster progress, not least in relation to surplus temporary places whose removal does not involve the effort and upheaval of school closures; and that the limitation of resources and the needs of the education service now make much faster progress essential”. In the Circular 4/82, the Secretary of State alleged policy on the tertiary six-form college with intention of constriction of discretionary power to the local education authority (Meredith). Furthermore, the Circular 3/87 emphasized cut of extra expenditure by describing that “The Secretary of State would not normally be prepared to approve the

closure of a school of proven worth unless there was evidence that it could not continue to sustain its established quality and that the alternative proposals would secure at least the same quality and variety of education at lower cost". It is to be noticed that these Circulars pointed problems about rationalization of the surplus places, cut of the expenditure and the tertiary six-form college without the LEA, which the Audit Commission afterwards recommended as essentially important agenda from viewpoints of value for money.

1.3. Audit Commission

It seems that the Audit Commission, auditing local government, has been playing bigger roles than our preconception. The audit Commission can be addressed as extension of the Layfield Committee (1974) which checked the whole system of local government finance and provide recommendation. I also think the other reason of the start of the Audit Commission in 1983 is due to the judgement of the government that existing Circular, which has been facilitating as governmental control tool, cannot fully cope with wide public services including education. Though the Audit Commission calls little attention to researchers of education, its role is decisive in recommendation and induction of new education policies.

The Audit Commission legislated in the Local Finance Act 1982, started in April, 1983 and closed in March, 2005, is a public body independent from sovereign and local authority. Besides the Audit Commission, there exists NAO auditing the sovereign. Members of the Audit Commission are appointed by the Secretary of State (the Local Finance Act 1982, section 11). In general, purpose of the Audit Commission is audit of public fund and evaluation of public policy from viewpoint of value for money. Annual report of the Audit Commission covers various services of the local administration. Although the Audit Commission is independent body, Secretary of State for Environment can issue directive to the Audit Commission (Holloway).

1.3.1. Body Corporate

In the 1984 Annual Report of the Audit Commission, the auditors pointed out the budget of the further education. The further education is also pointed out in the Annual Reports of the Audit Commission in 1984, 1985, 1989 and 1993, respectively. The Education Reform Act 1988 changes provision and finance of the higher education and the further education (Part II), and established body corporate, Polytechnics and Colleges Funding Council (PCFC) (132). The Education Reform Act 1988 was legislated for change of management power of the City Technology College and the further education from the local education authority to the body corporate (15). The Further and Higher Education Act 1992 established new body corporate, the Further Education Funding Councils (1). This Act set out the rule of the transfer about the land, property, right and responsibility from the local education authority to the Further Education Funding Councils (23). Under the Blair Administration the body corporate for the further education and City College started on a full scale. However, as the management is prioritized in the body corporate, such side effects as contract out of the education itself and the managerialism in place of the academism cannot be avoided. It is reported that forty percent staff of the College is non-permanent staff due to prioritization of management (Kendall and Holloway).

1.3.2. Inspection

The Audit Commission reported not only further education but school inspection. The Commission pointed out remarkable difference in the implementation by the local education authorities. Furthermore, the Commission published reports insisting that the local education authorities which cannot reform should be abolished (Changing Partners, Audit Commission 1998, Held in Trust, Audit Commission 1999). This corresponds to the legislation of the School Inspection Act 1996 and the School Standard Framework Act 1988. The School Inspection Act 1996 stated that the Chief Inspectorate for England must have the duty about the quality of the education, the educational standard, the effective management of the financial resources and the spiritual, moral, social and cultural development of pupils (2(1)). The Chief Inspector must also report on the schools (2(2)). The School Standard Framework Act 1988 Act gave the power of school inspection to the local education authority and the Secretary of State. First, the local education authority is conferred power of intervention to maintained school under the condition of school subject to formal warning or school with serious weakness or school requiring special measures (14(1)). Second, the measures of the intervention are additional appointment of school governors and suspension of the delegated budget (14(2)).

1.4. National Funding Formula

The Education Reform Act 1988 legislated the school budget by new funding formula, as the local management of schools (LMS) (Part I Chapter III). The Thatcher Administration proceeded delegation and control simultaneously, where the discretionary power of school budget is delegation and the funding formula is control. Relationship between the school budget and funding formula is similar to relationship between parental participation to the school board as delegation and national curriculum as control.

According to the funding formula legislated in the Education Reform Act 1988, ratio of at least 75 percent of individual school budget is delegated to the school based on number of pupils, afterward this ratio was upgraded to 85 percent. The local authority allocates the remaining budget of 25 percent based on the other factor. There existed differences in the proportions of the Potential Schools' Budget (PSB) delegated to schools (Bullock and Thomas). The formula factors are AWPU(Age Weighted Pupil Unit), premises, lump sum, SEN(Special Educational Needs) and so on.

In 2012 under the Cameron Administration, DfE started new delegation on the school board and school finance. The delegation about the school board aims reduction of burden under the reducing bureaucracy. The delegation of the school budget is combined with control by new National Funding Formula, like the Education Reform Act 1988. Principle of the National Funding Formula is fairness, simplicity, consistency and transparency. The new formula fashioned by delegation is characterized by budget allocation of the same level to the same environment and pupil number. As uniformity is introduced in the National Funding Formula, in addition to objectivity by allocation based on pupil number in existing funding formula, it is hard to reflect situation particular to the area and school to the budget allocation. Thus, the National Funding Formula faced many side effects, for example, cut of the minority problem in the school area and abolishment of new school projects.

2. Analysis of Statistics

I analyze financial policy using statistics of the national budget in order to show the reason of the rationalization of the school resource in the 1970s and reason of realization of the body corporate of the further education in the 1990s.

Table 1 shows education spending ratio per total revenue during 1970-79. The education spending ratio is remarkably high of approximate twenty in 1973-76. From these values of the ratio, the reason and motivation of the rationalization of the school resource is understandable.

| Year | Total Spending (£ billion) | Total Direct Revenue (£ billion) | Education Spending (£ billion) | Education Spending / Total Direct Revenue (percent) |
|------|----------------------------|----------------------------------|--------------------------------|---|
| 1970 | 21.6 | 18.9 | 2.8 | 14.8 |
| 1971 | 24.2 | 20.6 | 3.2 | 15.5 |
| 1972 | 26.4 | 21.8 | 3.6 | 16.5 |
| 1973 | 30.5 | 23.2 | 4.2 | 18.1 |
| 1974 | 39.2 | 26.6 | 4.9 | 18.4 |
| 1975 | 51.5 | 36.3 | 6.9 | 19.0 |
| 1976 | 58.5 | 44.6 | 7.8 | 17.5 |
| 1977 | 61.9 | 62.7 | 8.3 | 13.2 |
| 1978 | 71.9 | 68.1 | 9.0 | 13.2 |
| 1979 | 85.2 | 64.3 | 10.1 | 15.7 |

Table 1 Education Spending Ratio per Total Revenue

The author calculated a Ratio = Education Spending / Total Direct Revenue from statistics Public Spending and Public Revenue in the United Kingdom, <http://www.ukpublicspending.co.uk>

I also analyze reason of realization of the body corporate of the further education in the 90s. Table 2 shows spending ratio per total spending during 1970-2015. Although education spending ratio is always stable between 11.5 and 13.5 percent, spending ratios of the health care and pension have been extremely increasing. The welfare spending ratio is still high. Especially, the education spending ratio exceeded defence spending ratio since 1989. Such situation satisfies the motivation why body corporate of the further education was obliged to be managed without central grant.

| Year | Total Spending (£ billion) | Pensions (percent) | Health Care (percent) | Defence (percent) | Welfare (percent) | Education (percent) |
|------|-------------------------------|-----------------------|--------------------------|----------------------|----------------------|------------------------|
| 1970 | 21.6 | 9.3 | 9.7 | 13 | 13 | 13 |
| 1971 | 24.2 | 8.7 | 9.9 | 13.2 | 12.4 | 13.2 |
| 1972 | 26.4 | 9.8 | 10.2 | 13.3 | 13.6 | 13.6 |
| 1973 | 30.5 | 9.8 | 9.8 | 13.4 | 13.4 | 13.8 |
| 1974 | 39.2 | 9.7 | 9.9 | 12 | 13 | 12.5 |
| 1975 | 51.5 | 9.5 | 10.3 | 11.3 | 12.8 | 13.4 |
| 1976 | 58.5 | 10.1 | 10.6 | 12.5 | 14 | 13.3 |
| 1977 | 61.9 | 11.1 | 11.1 | 13.2 | 15.5 | 13.4 |
| 1978 | 71.9 | 11 | 11 | 13.2 | 15.4 | 12.5 |
| 1979 | 85.2 | 9.6 | 10.7 | 13.3 | 14.7 | 11.9 |
| 1980 | 103.9 | 10.5 | 11.5 | 13 | 14.6 | 11.9 |
| 1981 | 116.1 | 11 | 11.5 | 12.6 | 15.4 | 12 |
| 1982 | 128.0 | 11.1 | 11.3 | 13 | 15.2 | 11.6 |
| 1983 | 132.7 | 11.6 | 10.9 | 12.2 | 17.2 | 11.3 |
| 1984 | 140.5 | 11.4 | 11 | 12.4 | 17.4 | 11.2 |
| 1985 | 150.9 | 11.3 | 10.9 | 12.7 | 17.4 | 10.9 |
| 1986 | 158.6 | 11.9 | 11 | 12.7 | 18.2 | 10.7 |
| 1987 | 164.6 | 12.2 | 11.4 | 12.4 | 18.5 | 11.4 |
| 1988 | 173.6 | 12 | 11.8 | 12 | 18.2 | 11.8 |
| 1989 | 179.9 | 12.3 | 12.6 | 12 | 18.7 | 12.2 |
| 1990 | 200.9 | 11.9 | 12.2 | 11.6 | 18.3 | 12.2 |
| 1991 | 218.2 | 12.4 | 12.6 | 11.2 | 19.7 | 12.1 |
| 1992 | 236.2 | 11 | 13.2 | 11 | 20.1 | 12.4 |
| 1993 | 259.7 | 13.3 | 13.5 | 10.1 | 20.8 | 12.6 |
| 1994 | 271.5 | 15.2 | 13.6 | 9.6 | 21.8 | 12.7 |
| 1995 | 289.0 | 14.3 | 14 | 8.9 | 20.8 | 12.5 |
| 1996 | 304.3 | 14.9 | 13 | 8.1 | 20.9 | 12 |
| 1997 | 308.4 | 16 | 13.4 | 8.1 | 20.9 | 12.1 |
| 1998 | 318.4 | 16.4 | 13.5 | 7.7 | 19.5 | 12.3 |
| 1999 | 332.7 | 18.6 | 14.1 | 8 | 16.5 | 12.2 |
| 2000 | 340.8 | 19.3 | 14.6 | 8.2 | 17.3 | 12.5 |
| 2001 | 366.1 | 20 | 14.8 | 8.2 | 15.8 | 12.7 |
| 2002 | 389.1 | 20.1 | 15.4 | 7.3 | 15.2 | 13.1 |
| 2003 | 420.5 | 19 | 15.7 | 7.1 | 15.6 | 13 |
| 2004 | 455.1 | 18 | 16.5 | 7.1 | 16.3 | 13.4 |
| 2005 | 491.8 | 17.6 | 16.9 | 6.8 | 15.9 | 13.2 |
| 2006 | 523.5 | 17.2 | 17.1 | 6.7 | 15.6 | 13.3 |
| 2007 | 549.4 | 17.1 | 17.2 | 6.7 | 15.2 | 13.3 |
| 2008 | 582.2 | 17 | 17.6 | 6.6 | 15.5 | 13.5 |
| 2009 | 633.8 | 17.1 | 17.2 | 6.5 | 15.7 | 13.1 |
| 2010 | 673.1 | 17.3 | 17.4 | 6.3 | 16.4 | 13.1 |
| 2011 | 694.2 | 17.6 | 17.3 | 6.5 | 16.2 | 13.2 |
| 2012 | 694.4 | 18.7 | 17.5 | 6.4 | 16.3 | 12.5 |
| 2013 | 673.9 | 20.7 | 18.4 | 6.3 | 16.9 | 12.9 |
| 2014 | 714.0 | 20.1 | 18.1 | 6.2 | 15.7 | 12.6 |
| 2015 | 781.4 | 20.5 | 18.2 | 6.2 | 15 | 12.3 |

Table 2 Spending Ratio per Total Spending

The author calculated a Spending Ratio = Spending / Total Spending from statistics Public Spending in the United Kingdom, <http://www.ukpublicspending.co.uk>

Conclusion

I briefly discuss relationship between the financial control and education policy. I do not intend to say that school education in the field level is directly restricted by the financial controls, however, the administration education expressed by the education policy is directly or indirectly influenced by the financial control. As discussed throughout this paper, the Audit Commission and the circuit are strong control tools for formulation of the education policy, while the national budget and rate support grant formulated foundation of the education policy. Especially, the Audit Commission has been playing decisive role to unprecedented extent in policy formulation of the education of the U.K.

References

- BULLOCK A. and THOMAS H. (1993) Comparing School Formula Allocations: An Exploration of Some Problems, Eds. Gwen Wallace, *Local Management, Central Control: Schools in the Market Place*, pp.16
- ELCOCK, H. (1994) *Local Government*, Routledge, pp.119-120
- GARNER, J.F. (1974) *Administrative Law*, Fourth Edition, Butterwoths, pp.422-436
- HEPWORTH, N. P. (1985) *The Finance of Local Government*, Seventh Edition, , George Allen and Unwin, pp. 55, 57, 292-293
- HOLLOWAY, D. (1999), The Audit Commission, Managerialism and the Further Education Sector, *Journal of Vocational Education and Training*, Vol. 51, No.2, pp.233-236
- JOHN, P. (1990) The mid-1970s to the mid-1980s: central government intervention, *Recent Trends in Central-Local Government Relations*, Policy Studies Institute, University of Westminster, pp. 7-16
- KENDALL, I. and HOLLOWAY, D. (2001) Education Policy, Eds. Stephen P. Savage and Rob Atkinson, *Public Policy under Blair*, pp. 162, pp. 164-165, Palgrave
- LOUGHLIN, M. (1996) *Legality and Locality, The Role of Law in Central-local Government Relations*, Clarendon Press, Oxford, pp.89-90
- MEREDITH, P (1992) *Government, Schools and the Law*, Routledge, pp.122
- WALSH, K. (1985) Workforce, *Between Center and Locality*, (Eds.) RANSON, S., JONES, G. and WALSH, K., George Allen and Unwin, pp.103
- The Education Milk Act 1971
- The Local Government Act 1972
- www.margaretthatcher.org, 1972
- Layfield Report, 1976
- Circular 2/81
- Circular 4/82
- Circular 3/87
- The Local Government, Planning and Land Act 1980
- Macfarlane Report, 1980

The Local Finance Act 1982

The Rate Support Grant Act 1986

The Local Government Finance Act 1988

The Education Reform Act 1988

The School Standard Framework Act 1988

Green Paper, 1977

Changing Partners, Audit Commission 1998

Held in Trust, Audit Commission 1999

DfE, School funding reform: Arrangement for 2013-2014, June 2012

DfE, Governors' Handbook: For Governors in Maintained Schools, Academies and Free Schools, January 2014