

WORKING PAPER 456

FURTHER EDUCATION AND FINANCE 1974-1985

C I RAMSDEN

School of Geography  
University of Leeds  
Leeds LS2 9JT

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## 1. Introduction

This paper is the first of a pair, and deals with the financial aspects of further education. The second paper deals with policy and further education (Ramsden, 1986). However, both papers are inter-related through the common theme of control of further education by finance and policy. In this paper the way in which local authorities provide and organise education for their rate payers in the context of their available resources is examined together with the means by which local education authorities (LEA's) are controlled by central government by means of financial provision. The reader may find it not only useful to consult the second paper, 'Further Education and Policy, 1974-1985', but also the paper, 'The Development of Further Education since 1956' (Ramsden, 1985), which considers the changes which have taken place within the further education sector. As this paper points out, further education has changed and is still changing in response to several factors, such as economic constraint and industrial need. Industrial need is recognised largely as vocational provision and preparation, so that interest is centred on the Manpower Services Commission (MSC), Youth Training Schemes (YTS) and their Technical and Vocational Education Initiative (TVEI). The reader should perhaps be aware that such schemes, although devised in consultation with the Department of Education and Science are run by the Manpower Services Commission which is part of the Department of Employment. The funding of such schemes is via the Manpower Services Commission, which is in receipt of funds previously earmarked for the Department of Education and Science.

The increasing activity of the MSC can now be seen emerging across further education, but it is clear that there is considerable overlap between this type of work done in schools and in colleges. This makes it difficult to consider the work carried out in sixth forms in schools, which now includes 'academic' courses and 'vocational' courses, including the TVEI. This paper and its partner deals mainly with further education in the non-school sector, but recognises that just as 'A' level work takes place in schools, it also takes place in colleges. Therefore such 'overlapping' is dealt with where necessary, but it is probably worth stating that the position of sixth forms is

unclear and that it will probably be necessary to reappraise their position as Tertiary Systems are re-defined and become more integrated later.

## 2. Education and Finance

### 2.1 The Public Expenditure White Papers as background

During the financial year 1979-80 the total expenditure on education exceeded £9,000 million, which represents approximately 13 per cent of all public expenditure. This figure of £9,000 million can be raised to £10,000 million if private education is added (Wagner, 1981). In the financial year 1980-81 this figure exceeded £11,000 million and reached £11,561 million in 1983-84 (CIPFA, 1985). In terms of the UK economy, education accounts for around 6 per cent (5.3 per cent 1982-83) of the Gross National Product - one sixteenth of the total available resources in the economy in each year goes to education. The White Paper 'The Governments' Expenditure Plans' for 1980-84 revealed an expectation that expenditure on primary and secondary education would fall quite significantly from around £5,000 million 1979-80 to £4,690 million 1984-85. In the event expenditure actually increased from the £5,000 million (£4,372 million) in 1979-80 to £5,641 million in 1984-85 (The Governments' Expenditure Plans, 1985-86 to 1987-88, Vol. II). The Expenditure Plans for 1980-84 contained an expectation that in higher and further education there would be a slight fall, based on the projected number of pupils in school which was expected to decline by around 15 per cent, but that there would be a slight increase in student numbers. The Expenditure Plans 1985-88 show that in non-university higher education (including adult education) expenditure has risen every year from £1,697 million in 1979-80 to £2,725 million in 1983-84 and £2,016 million for 1985-86 which is a drop. However, the estimate of £2,630 million for 1986-87 shows the upward trend. The Plans state that the total for local authority current expenditure on education 1985-86 represents an increase of 6 per cent in the allocated total compared with 1984-85, after various allowances have been made, including the transfer of £62 million 1985-86 to the Manpower Services Commission and £105 million 1986-87, for the purchase of 'work-related non-advanced

further education'.

The government's white papers are an indication of what has been spent by the public sector on education and other services and what the future expenditures are likely to be. In education, central government is only directly responsible for less than one fifth of the total expenditure. Most of this goes via grants to the universities, other institutions, student awards and to the various research councils. Local government spends the remaining four-fifths.

## 2.2 Local government organisation

The last major re-organisation of local government was made, of course, in 1974, although it should be recalled that there are plans for a new re-organisation during 1986 involving the abolition of the metropolitan counties. The consequence of the 1974 re-organisation was to produce a two-tier system of counties and districts across the country. In the case of large authorities, there are the counties, which are divided into metropolitan counties (e.g. Greater Manchester) and non-metropolitan counties (e.g. Lancashire). The districts are divided between metropolitan districts (e.g. Manchester) and non-metropolitan districts (e.g. Preston). London comprises the Greater London Council at county level and the boroughs of London at the district level. This means that for most people, wherever they live, local services are provided by the district council, and some are provided by the county council.

In educational matters, the organisation is rather more complex. Education beyond London is provided by the metropolitan districts and the non-metropolitan counties. For example, in Manchester, the Manchester Metropolitan District provides the education services, whereas in Preston, Lancashire County Council deals with education. In London the 20 outer boroughs provide their own education services, but the 12 minor ones combine to form the Inner London Education Authority (ILEA). In total, there are 104 local education authorities in England and Wales which are part of county or district local authorities, which also provide other services such as housing. The ILEA exists solely to provide education and is therefore a unique

body. (Total 105).

### 2.3 LEA expenditure

As Wagner (1981) points out, most schools and institutions of an LEA are not individually budgeted, but rather the authority will use the pupil-teacher ratio and the book and material allowance per pupil which it will use on the entire education sector. Staff and materials allowances are applied to individual schools, on the basis of pupil numbers. In further education where an authority has a small number of colleges, each college prepares its own budget which is then submitted to its parent authority.

LEA's tend to determine their estimates in differing ways, and some LEA's will make their policy when the budget is being discussed. For example the pupil-teacher ratio or the capitation allowance might be studied in the light of present economic constraints, in order to determine whether these ratios can be improved or if they will have to be reduced. Some LEA's try to separate policy questions from their financial implications. It is argued by Wagner (1981) that this tends to lead to more rational decision-making. For such an authority, a policy to improve or to reduce capitation allowances, is discussed on its merits during the course of the year. If the decision is made to proceed, the policy item is put in the policy list to be decided finally at budget time. Near the end of each financial year, the LEA will estimate its future expenditure for the next year, allowing for inflation, as if continuing with existing policies. Having done this the financial effect of policy decisions made during the year are added. This then allows the LEA to see what, in financial terms, would be the effect on its expenditure of all policy items were agreed. At this stage, the decisions concerning which items are to stay, and which items are to be dropped must be made. During economic hardship, most authorities are unable to implement new policies, rather, they are forced to cut back on their existing services.

Final decisions concerning educational expenditure are not made by the education committee, but by the whole council of the particular local authority, which considers financial expenditure for each of its departments. Generally speaking, education takes up the greatest

slice of finance, being approximately 60 per cent of all LEA expenditure. It should be noted that educational expenditure often has an important influence upon the size of an LEA's contingency fund. This fund is usually set aside for items such as possible wage awards which have not yet been agreed.

Therefore, the LEA budget on education must be decided in the context of all service provision. Whilst education demands the largest slice of finance it also demands the largest amount of attention as a result. Yet, the LEA's own discretion on budgeting and expenditure is limited. The LEA is of course bound by statute to provide schooling for all of compulsory school age, and to provide adequate opportunities for those beyond that age. Whilst an authority has some freedom in determining the number of teachers it wants, the salaries of those teachers are decided nationally and as such, the individual LEA has little influence on determining those salaries. Most of the problems concerning financial cutbacks are due to the simple fact, that, the area/s in which cutbacks may be made are very small in relation to the total budget. An example is that of the budget for books and materials, which may be determined by the LEA, but only represents around 3 per cent of the total educational expenditure of an LEA.

## 2.4 Financial sources

In short, there are three main sources of finance for education. Firstly, there are the grants made from the central government. Secondly, the charges made by the local authority for the various services which it provides, and thirdly, the levying of rates on property owners in each local authority area.

### 2.4.1 The central government grant

The central government grant is the largest source of income for most local authorities, and it is recognised as the Rate Support Grant (RSG), or more correctly the Block Grant. (See Appendix I.) Some of this money is provided for specific purposes, and is not included within this grant. In general, around 50 per cent of LEA expenditure is met through the RSG. One question that is often asked is, why does central government support local services via the RSG? There are several answers to this question but the most obvious is that, certain services, including

education, must by statute be provided. There is also the view, which has now achieved prominence, that this grant may be used in such a way as to control local authority expenditure.

The operation of the RSG was changed in 1980, under the Local Government Planning and Land (No 2) Act, and the mechanisms of control found therein are somewhat complex. Central government must firstly make the decision as to how much money is going to be available for the RSG, and this is done by determining the total level of relevant local authority expenditure per annum. During the year 1979-80, for example, this figure was fixed at £14,109 million. Secondly, central government must decide a proportional figure for the expenditure it will cover in the RSG. During the mid-seventies this figure was as high as 66.5 per cent, but settled to around 61 per cent for the late seventies. On this basis central government provides around three-fifths of local authority expenditure. It should be recalled that the RSG does not apply to all local authority expenditure, but to what the government refers to as relevant expenditure, hence there appears a discrepancy between the figure of 50 per cent and 61 per cent. Having agreed upon the total figure for local authority support, adjustments have to be made before distribution is carried out. For example there are included in consideration, specific and supplementary grants. During 1979-80 specific and supplementary grants took up nearly 16 per cent of the total RSG. A second alteration, or deduction must be made for the 'domestic element'. (See Appendix I.) This is carried out so that the burden of local authority rate demand falls on industrial and commercial properties, rather than on the householder. This rather odd element arises since government prefers that the burden of local authority rate demand falls less upon domestic households and more upon industrial and commercial properties. One major reason for doing this is that a business may offset their rate bill against tax, unlike domestic rate payers. In the later years of the 1970's, around 81 per cent of the total RSG was used in this way, with around 52 per cent for 'needs' and 25 per cent for resources.



The domestic element under the 1966 White Paper was aimed at keeping 'the average increases in rate poundages more nearly in line with the growth of the economy, as measured by gross domestic product'. However as Burgess and Travers (1980) point out, the 'increase in domestic rates since 1966 has outstripped GDP, growth in public expenditure and even inflation, through the large increase in local authorities' spending during the early 1970's'. Therefore the domestic element is now aimed at financing 'the domestic rate relief which rating authorities are required to give'. By use of the domestic element, central government may control household rates, since by increasing the domestic element householders' rates are kept down and vice versa. This mechanism has implications for the block grant, since this sum is equivalent to the resources and needs elements. If the 'national standard' rateable value increases, then the amount paid for resources increases. In turn the amount for needs is dependent upon the decision to keep domestic rates down or the decision to attempt compensation for areas with low rateable values.

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Under the 1980 Act the amount available for distribution, the Block Grant, is given out to each local authority, according to calculations made on the difference between each authorities' needs, and its income from rates, on the assumption that it charged a national

standard rate determined by central government. The element of need for each authority stems from a consideration for the demand for the services arising from factors such as the age structure of its population. The larger shares of the grant, go to those authorities which have the biggest gap between their figures and the revenue estimated to be brought in by the application of the standard rate. At least this is how the Act operates in principle. Experience has revealed that the RSG block grant system can be used in a very discriminatory manner.

Where a local authority wishes to spend more than the estimated needs element, it may do so, but the extra element must be financed from other sources of income, such as charges and rates. The Act allows the Secretary of State for the Environment to 'penalise' given authorities, by a reduction of their grant, if their expenditure does not reflect government policy, or if there is a significantly higher gap in the government's determined figure for rates. This is, of course, the system called 'ratecapping'.

With regard to the education service of a local authority, the RSG will have been determined with regard to certain local characteristics, which will affect education provision (e.g. children aged 7-11). The grant may include specific educational elements, but there is no guarantee that the education service will receive that figure which the government has assessed as being necessary. The grant is normally given to the local authority as a whole and thus the authority usually uses it as a source of income to cover all their expenditure. Furthermore, on receipt it is not possible to state that education should receive 50 per cent of the grant, because, the grant is not apportioned in any way. Similarly it is not possible to state that since the education component in the RSG has risen by 5 per cent, then it is possible to raise the education budget by the same amount.

#### 2.4.2 Charges

Revenues for a local authority come from two main sources. There are charges and fees for services, and rates levied on property (see below 2.4.3). Charges and fees have gradually declined in importance over time, as grants increased as a proportion of income, and as Burgess and Travers (1980) point out, income-generating services, such as

electricity and gas were also lost, when removed from local control.

Sources of income from fees and charges derive from (Rate Fund Services)

Housing rents

Education fees: further education, school meals, milk, refreshments, etc.

Social services: children's homes and for the elderly, etc.

Libraries, museums, art galleries

Refuse collections (special)

Vehicle parking

Miscellaneous

Sources of income from trading services derive from

Passenger transport

Cemeteries and crematoria

Harbours, ports and piers

Markets

Abattoirs

Airports

Substantial amounts of money may be derived, by a local authority, from trading services and rate fund services. Generally the division between the two services is made by referring to a trading service if it could be run by private enterprise on business lines. Therefore, a local authority trading entity is expected to raise sufficient revenue from charges to meet the cost of providing that service. However, some trading services are large loss makers and require subsidising from the rates.

Where the income from housing rents, fees and various other charges, such as recreation facilities, indicates a 'profit' or surplus when set against the cost of the individual service to which the income relates, then that surplus may be used in relief of the non-remunerative services. In this way the surplus can be used to reduce rate-borne expenditure.

#### 2.4.3 Rates

Rates levied upon properties within the area of a local authority provide the final major source of revenue. Rates are often used to cover

the gap between expenditure and income which is left after the RSG and the charge sources have been taken into account. The rate levy is usually decided after the proposed expenditure for the next financial year has been determined. Where the rate levy is deemed to be too high, then expenditure has to be cut. Very occasionally a local authority will increase its charges instead of raising the rate levy.

Income from rates provides only 25 per cent of the local authority's income therefore. However, it is the most obvious form of tax made on an authority's inhabitants and is subject, as a consequence, to most attack. Differing rating schemes have been discussed over time, and the Layfield Committee on Local Government Finance (1976) investigated all the major alternatives, but suggested keeping the existing system.

#### 2.4.4 Other grants

Besides the block grant or the general grant, of which the RSG is the most obvious example, there are other forms of grant made by central government, but made in such a way as to act as instruments of educational policy.

Specific grants or earmarked grants are those given on stipulation that they must be used for a given service such as education, or, that they must be used for some purpose (specified) within that service. It is therefore channelled by the awarding body to a given point. Unit grants for education are distributed in proportion to the scale of the educational activity it is intended to support. For example, it may be through a fixed sum of money per pupil or per enrolled student. It is also known as a capitation grant. Grants of this type have been made to LEA's and higher educational institutions in the past. Percentage grants are a predetermined proportion of approved expenditure on education or a part within it. It is therefore specific. Most of the central government funds for education made to the LEA's took this form until 1958. Under this system, a 40 per cent grant means that 40 per cent of the expenditure would be met by central government. At present 90 per cent of the cost for mandatory LEA awards for students in advanced further education are met by central government. Under the system of assigned revenue, the revenue from a particular tax or levy is assigned to a specific purpose. An example would be the levy made

on firms as a contribution to the support of industrial training boards.

## 2.5 Capital expenditure

Capital expenditure for education is based upon the annual building programme announced each year by the Secretary of State, with separate programmes each year for schools and for further education. Finance for capital expenditure does not come, though, from central government (except, for example, in the case of major disasters) but from the relevant local authority. Since central government has overall control of public authority capital expenditure, the local authority must obtain agreement ('loan sanction') before they can raise the money to build. The building programme when announced by the Secretary of State, indicates that the amount to be spent on this capital expenditure has been finalised.

In further education building, local authorities submit proposals to the DES which then consults the Department of the Environment. Each building programme is divided into major and minor works, with minor works costing less than £25,000 (1975 figures) which do not have to be approved individually. The total figure though must not be exceeded. Once approved the local authority usually finances building by borrowing from the capital market, with interest on that borrowing being part of current expenditure. Financing must be done this way, since whilst in theory a local authority may meet such capital expenditure through rates, it is rarely enough, although some small capital expenditure projects are carried out this way.

The mechanism of approval is as Wagner (1981) points out very important, since it reflects the control of, and the responsibility for the performance of the economy. Excessive spending of capital funds in local authorities may restrict availability of funds for other sectors of the economy. In this way, the DES is seen to be a 'control' and 'rationing' unit, allocating funds to various projects. However, as Wagner (1981) notes, the system seems to assume that the demands made by the local authority will always be greater than the funds available. Capital spending though is usually treated with great care by local authorities during periods of economic uncertainty, since over-borrowing can seriously affect their financial stability. This

case is reflected in the way in which authorities do not always borrow the maximum permitted amount. When this happens a local authority cannot be persuaded by central government to undertake more capital expenditure than that authority wishes to undertake.

Central control over capital expenditure projects has been subjected to various changes since 1945. A noticeable change was made in 1968 when a 'rolling programme' was introduced in circular 13/68, which introduced the preliminary list, the design list and the start list. This system was itself changed for further education building in 1971, which was aimed at controlling the development of polytechnics, and introducing a new timetable for further education building programmes. Circular 2/70 from the Department of the Environment introduced key sector schemes and automatic loan sanction for some schemes approved by the DES. It also introduced locally determined schemes which was to control capital for all purposes not in the key sector or for educational building. Modifications were made to this circular in 1974.

Control of capital expenditure, especially since 1970, by central government has had various effects. The reduction of capital allocation, "may affect education more than other services with fewer capital needs" (Pratt, Travers and Burgess, 1978). Reducing expenditure may affect a local authority's ability to provide physical accommodation for education, and lead to overcrowding, but merely slows improvements in services such as social services. Capital spending therefore is a result of the economic climate, which may or may not favour the needs of education.

### 3. Financial provision

#### 3.1 Non-advanced further education (NAFE)

In brief, non-advanced further education includes all courses upto and including GCE 'A' level, provided after the age of 16 (minimum school leaving age). Such courses are provided in several institutions, varying from school sixth forms, tertiary colleges or colleges of further education. Finance for these courses is provided by the the relevant LEA, which in turn receives a contribution for educational

expenditure via the Rate Support Grant. The actual amount received by the local authority is determined at national level by central government (see section 2.4.1). The contribution for educational purposes represents around 61 per cent of total educational expenditure for a local authority. The remaining 39 per cent is met mostly by local authority income from rates. The situation regarding course finance has recently been confusing due to the involvement of the Manpower Services Commission in the life skills aspect of the Youth Training Scheme. In these cases the education part of the course (i.e. life skills) has been largely provided by colleges of further education, but the Manpower Services Commission has used its funds to pay for this provision. In August 1985 it was announced (THES 2.8.85) that 25 per cent of NAFE funds that would have previously gone to LEA's were now being transferred to the Manpower Services Commission to enable it to 'purchase' education from the local authorities. This is covered in the paper, 'Further Education and Policy, 5.4'.

### 3.2 Advanced further education

#### 3.2.1 The pool

There is no specific grant made by Central Government to any individual local authority for the advanced further education which they provide. In the case of most institutions which provide advanced further education, including the polytechnics, individuals are both attracted and admitted to particular institutions of a given local authority, from other local authority areas. Therefore, in an attempt to be fair, or to compensate a providing authority for provision to students from these other areas, expenditure directly related to AFE is 'pooled'.

This means that the amount of money which is required to provide advanced further education is calculated by summing the budgets of the 105 local authorities' colleges and polytechnics, which provide for this type of work. Eligible to be included in the amount of money which is needed to provide this service includes:

- (a) Initial teacher training
- (b) First degrees and comparable higher courses

(c) Research

The total figure for the pool having thus been calculated, the amount of this figure which an individual local authority must pay is then assessed on the basis that 69 per cent of the costs are met in proportion to the school population of that authority, and that 31 per cent of the costs in proportion to non-domestic rateable values.

(The latter being on the grounds that employers will or are receiving the benefit of such education). The percentage arrangements are taken to reflect the interests of the consumers of education; students and employers of those students.

The pooled expenditure, having been redistributed in the above manner, is then charged to the local authorities. In this way the pool fund is created. However, a given local authority may well receive compensation instead, according to their actual expenditure falling below, or exceeding their reallocation. It is probably worth noting that in addition to pooled spending for AFE there are similar arrangements in respect to other services, from which all LEA's may benefit, but again, to which some LEA's contribute more. Examples include, spending on the training of education psychologists, the Hereward College of Further Education for the Physically handicapped, and pupils without residential qualifications. The pool is actually redistributed through adjustment of the Rate Support Grant to individual authorities.

Several weaknesses and problems are associated with the pooling system. One of the major weaknesses, as described by McNay and Horton (1981), was the control over the size of the total budget, which depended upon local decisions, made within the rules and criteria of 100 or so different bodies. Since this number was so large, it was not possible to use one consistent approach. In the case of an authority with a low population and a low rateable value, which had a large college offering AFE courses, then it would take out of the pool much more than it put in. However, if the college was allowed to expand the variety of courses on offer, this financial gap could be reduced. The local economy could be improved by employing more service staff and also by bringing in students by use of money provided in maintenance grants. An authority which suffered a net deficit from the pool would almost certainly wish to reduce this figure by expanding provision, under the



belief that if they did not, other authorities would, and the deficit would continue to grow. In this way the pool continued to grow.

Pressure to reduce this was applied by the committee for administering the pool. They put pressure on authorities and also on institutions through them, by publishing 'norms' which related to measures of performance including, average class size, lecturer contact hours, and staff-student ratios, all in the hope that this would bring all colleges nearer to the 'norm'.

However, these 'norms' of performance were not related to any aspects of provision or what could be called provisional norms. In this sense the publishing of norms of performance seems only to be one side of the problem. The imposition of capping measures, outlined below, illustrates the problem of local conditions being unknown or unheeded by central control. Furthermore such action appears to have hit the colleges of further education far more than the polytechnics since the latter have often been regarded as the peak of individual LEA provision.

In 1979 the Conservative government 'capped the pool' which therefore set a cash limit on the amount of money which was available from it, despite whether the cumulative budgets of the institutions exceeded this 'capped' amount. If cuts were then necessary, they were to be allocated on a pro rata basis, relating to the difference between institutions' budgets for 1978-79 and their estimate for 1980-81. This was not popular due to its apparent insensitivity to local conditions, and also because it still had a bias towards the expansionist and spendthrift institutions. The problem of profligacy on the part of providing local authorities has been looked at by Westoby (1979). Such profligacy is seemed to be encouraged because prior to the 'capping', an LEA only had to meet a very small amount of additional expenditure which they themselves actually permitted. In this way there was only very weak pressure on an LEA to control costs or to be satisfied over the issue to provide additional places or courses.

Westoby also states that one may argue that the DES as a co-ordinator and a policy director has not been effective enough in the attempt to control costs. This, therefore, is the reason why expenditure as a whole, has greatly increased. The real problem of expenditure is

in its application with regard to non-advanced further education (which is not reclaimable) and advanced further education (which is). In practice costs are calculated at an institution, in proportion to timetable teaching hours. This means that there is a hidden incentive for an authority to allocate an institution's time to advanced work, even maybe at the cost of providing non-advanced courses. Westoby (1979) also points out, that in addition to the hidden incentive, the pooling arrangements for advanced further education may distort the pattern of teaching provision, especially at the polytechnics, by giving priority, within future plans and also within the timetable arrangements, to advanced courses. The question which therefore arises is whether or not such priority is to the overall detriment of non-advanced work. If this is the case then one might ask if the work of the Manpower Services Commission is an attempt (in disguise) to get around the inadequacies of this existing system of provision, as perceived by central government.

In line with the re-organisation of teacher training, following the James Report, the teacher training 'pool' was amalgamated in 1975 with the advanced further education pool, through which such institutions of higher education had been maintained since 1957 (Fowler, 1979). Briefly, these two pools differed in so much that the old AFE pool took account of the percentage rateable value that was industrial or commercial in the authorities' areas. However the general principles were the same, and the old system was the same as the new, since everybody paid for what everybody else spent. It was because of the increasing doubts concerning viability, finance and administration of the system which required individual authorities to be responsible for individual institutions, whilst all LEA's collectively financed them, that produced the impetus for the Oakes Committee or 'the Working Group on the Management of Higher Education in the Maintained Sector'. This group was established in 1977 under Anthony Crosland's bidding. Fowler (1979) points out that this committee can be seen, also, as a demonstration in the belief that local government control may not be the most efficient way of ensuring national needs are being met in higher education.

The first chapter of the paper, 'Further Education and Policy' deals specifically with the criticisms, recommendations and government's response to the Oakes Report of 1978, and looks at the position of the Oakes findings in relation to policy making for the 1980's, as put

forward in the consultative document, 'Higher Education in England outside the Universities: Policy Funding and Management'. (The 1981 Green Paper).

### 3.2.2 Reward systems

Apart from the pooling system operating from agreement at the national level, there are other 'rewards' which encourage expansion and which also tend to move into other areas of control by the encouragement of academic drift. Schools reflect their size in the salaries paid to their heads. This 'group' size dictates the actual salary to be paid. Similarly in colleges the actual physical size of various departments and the number of lecturers, senior lecturers and ultimately their salaries, are determined by the number of points which the activity of the institution generates. In schools, sixth formers are worth more points, than lower school pupils. In further education a student pursuing an advanced course is worth more, than a student on a non-advanced course. This fact reflects itself at the department level and of course the size of the department dictates the number of senior and principal lecturers. Also of importance is the proportion of advanced work which is carried out since this goes to make up the number of points for each department, and this can seriously affect the progression of staff through the salary scale due to this being dependent upon involvement in a 'substantial amount of advanced work'. (Regulations of the Burnham Committee). Therefore, advanced work is obviously deemed of greater value, in financial terms, than non-advanced work. In a similar way, the formula which is used to convert part-time students to full-time equivalents leads to financial penalties for both students and institutions offering part-time courses. McNay and Horton (1981) point out, that this reward system with its inbuilt penalties, was one of the main reasons as to why the polytechnics dropped a great deal of their non-advanced work very soon after their founding, and then later, much of their 'locally relevant part-time work'. Similarly when it was decided by central government to concentrate advanced work into certain institutions in the public sector, those institutions not included in the designation tried desperately to climb the table of 'institutional classification'. The phrase 'to reach out into higher education from a further education base' is one which has been used several times in this connection.

### 3.3 Student grants

One of the major problems for the registrars and the finance officers of universities, polytechnics and other colleges, is that of determining a student's grant status. Some courses for full-time students, may require entry qualifications very similar to those needed for degree entry, but such courses do not qualify a student for a mandatory grant. Just as there is a great variety in the types of course on offer, there is also a great variation in the course fees. Courses reflect their nature, in their fees, which may vary by

- length (sandwich courses are charged at a weekly rate)
- status (advanced, non-advanced and postgraduate)
- mode of attendance (part-time costs for 5 years are less than 3 years full-time)
- by client (special fees for short courses and 'commissioned' courses)

It is also worth noting that fees for the same course may vary from student to student, depending upon where the student lives and who actually pays the fee. McNay and Horton (1981) cite the case of one course in 1980 which had seven different fees.

In short, the fees for grant aided students are paid for by the LEA's, the education and library boards in Northern Ireland, the research councils and also by the MSC. The research councils and the MSC receive their funds direct from central government. The fees which are paid by LEA's in the form of mandatory grants are charged to central government at 90 per cent and are received by various institutions through more than 130 different channels. Many part-time students are sponsored in the public sector, such as hospitals and local authorities which receive central funds, often on a substantial scale. Such part-time students, therefore, provide a valuable and partly hidden source of valuable revenue, thus easing an individual's LEA budget for further education.

For home students, only around 20 per cent of the cost of provision is met by the fees. The remaining 80 per cent is met by the LEA. In the case of non-advanced courses, some may be recharged directly to

neighbouring authorities, where students cross LEA boundaries in going from to college, although there is in existence a number of inter-authority arrangements. For those who pursue advanced courses there are the arrangements of the AFE pool where authorities pay one sum in, and then take another sum out. In the case of non-advanced and advanced courses, 60 per cent of their net outlay is covered in the Rate Support Grant from central government.

In total around 70 per cent of all educational expenditure is met by central government at the educational and administrative heart. The remaining costs of around 25 per cent are met by the various public bodies. It is actually suggested by McNay and Horton (1981) that the entire system may well cost more to operate than the revenue brought in by sources outside the system in the form of private sources. Therefore, they suggest that money might well be saved by the total abolition of fees. Furthermore, because the system embodies such a varying number of operations, it is understandable that it is difficult to understand its operation as a whole.

### 3.4 The universities

In strict legal terms, the universities are independent, self-governing bodies though most of their funds are publicly provided. All universities in Britain, with the one exception of the Open University (which receives funds directly through the DES) and the two in Northern Ireland, receive funds in the form of capital grants and current revenue through the University Grants Committee. The Royal College of Art and Cranfield Institute of Technology are direct grant institutions (from the DES) with university status. The UGC really appeared in 1919 when its role was to aid the universities which were experiencing severe financial difficulties. Its other most important function was to organise the allocation and the provision of public funds to these universities, whilst at the same time protecting the academic freedom of the institutions and of those who taught within them from political interference and influence. In this sense the UGC was to operate as a 'buffer' between the universities and the state. The UGC has tended to evolve, rather than emerge as a direct result of any long term policy (see Westoby, 1979). However, its importance has grown due to the ever increasing costs of university education, the need to provide

more public finance and thus rely less upon the limited resources of private benefactors, and also from the need to provide public funds for teaching and scholarship whilst protecting them from 'positive' intervention by the state. It is worthy of note that Britain's universities tend to be rather unique in comparison to those of Europe in the concept that is held by many, that universities must be insulated against political interference.

Whilst the UGC has no legal power over the universities, it is able to exercise control on them with regard to the direction of individual universities. The UGC makes grants for recurrent expenditure, and also for capital expenditure, and it is in the case of the latter where control is held. Fowler (1979) points out that, especially during periods of expansion, the general policy of universities is more dependent upon capital grants than on any other. In this sense the UGC exercises powerful central control on all university development, being able to dictate individual building projects and also being able to influence the broad dispersion of subject teaching. It is not able though to use powers of proposal, only powers of approval, and it is not able to dictate the usage of buildings when they are built. In addition the UGC is not able to dictate uses for recurrent grants, but there can be methods of influence. This is done through the way in which an individual university must apply to the UGC for grants, and in doing so must indicate their, plans of admission, teaching and research, and general requirements.

Most UGC grants are not earmarked for specific uses, but some universities are informed as to which 'elements of submission' have been considered in producing the final figure. Where a given university blatantly ignores 'implied suggestions', it is usual that rather meagre treatment is received in the next grant. In making such grants the UGC has to take into account 'a specific pattern of activity' which may be the combination of undergraduate and postgraduate teaching in several subjects of different costs, libraries, administration, research and so on. Westoby (1979) points out that in order to make the grant, the UGC must have a view of the cost structure of the universities, but this idea has as yet not been substantiated, merely inferred.

Various elements of university expenditure are actually fixed

externally, for example, the UGC actually administers cost limits on university building, which in theory are the same or comparable to local authority premises for advanced further education. Salaries paid to university teachers and similar staff, just as with LEA teachers are settled nationally, and there is a specified limit to the ratio of junior to senior academic staff which a university may employ.

In 1976 university grants, together with other areas of the education service, were hit by the imposition of 'cash limits'. Before inflation had eroded the quinquennial system of grant provision, universities received a semi-automatic supplement for:

- (a) pay increases to staff
- (b) other costs (as specified by the UGC)

At the end of 1973 supplementation for other costs, and various 'ad hoc' settlements, brought about a series of annual allocations made by the UGC, but with no clear way of supplementation. However in order to determine the grant level, the UGC supposedly takes into account other revenue for individual universities, from tuition fees, gifts, endowments, local authority grants for education services in the local area and so on, but it is not clear how this is done. A large part of income for universities actually comes from research grants via the research councils which is of course, public money. Other forms of income are found in the renting of premises and consultancy fees.

Examination of sources of revenue for universities, indicate that only around 4.5 per cent of their total income comes from tuition fees (1974-75). Much of this comes from public funds in the form of LEA grants to students, and in the case of postgraduate work, DES and research council grants. Consequently it may be concluded that only a very small proportion of real costs are met from fees, and this was why tuition fees were substantially raised in 1977.

The UGC, in conjunction with the Secretary of State for Education, influences university policy by the use of target figures for the ratio of places that shall be science and engineering, together with arts and social sciences on the other. In the period 1967-72 the ratio was

55:45. In this case the decision was that of the DES working through the UGC. The government also occasionally sets target student numbers, but it is still the UGC which actually allocates the funds to individual universities, with respect to the target population that it considers a university can and will achieve over a given period. Universities may exceed such targets but they will not necessarily receive further funds from the UGC. It is in this way that the UGC and Secretary of State controls university development, but does not involve itself directly in any affairs of a university.

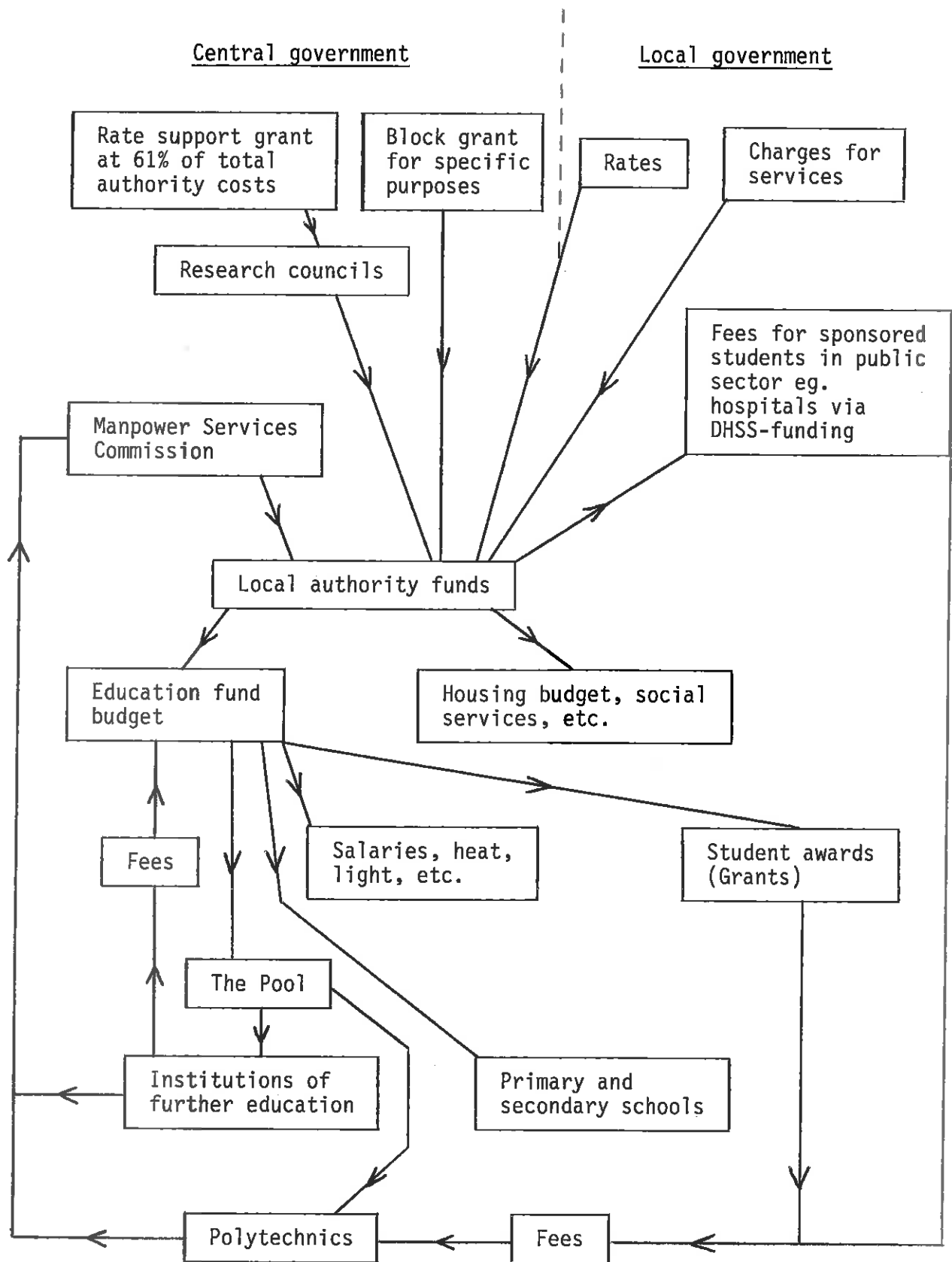
Whilst the charges of tuition changed in 1977 for university education, the general framework of public provision of student awards did not. Awards for tuition and maintenance are made by local government and most British resident undergraduates qualify for this sort of award. In this case all the tuition fee is met by the relevant local authority, being paid directly to the particular institution. The maintenance part of the award is paid to the students, for cost of living and studying, but it is not always at the maximum level, due to the sliding scale tied to the income of the students' parents. In this way parents, whilst not legally compelled, are expected to contribute to a proportion of the giant figure. The formulae which ties parental income to parental contribution has been changed in response to inflation and pressure from various interested parties, such as the National Union of Students.

Except in Scotland, where the figure is 100 per cent, local education authorities are reimbursed by the DES for 90 per cent of the value of all mandatory awards which they make. In addition, discretionary awards may be made to students who would otherwise not qualify for a mandatory award. LEA's also used to meet and still do meet the cost of tuition fees for students in teacher training. For such students, resident in college halls and hostels, the cost of board and lodging is directly deducted from their maintenance award, unlike a university student.

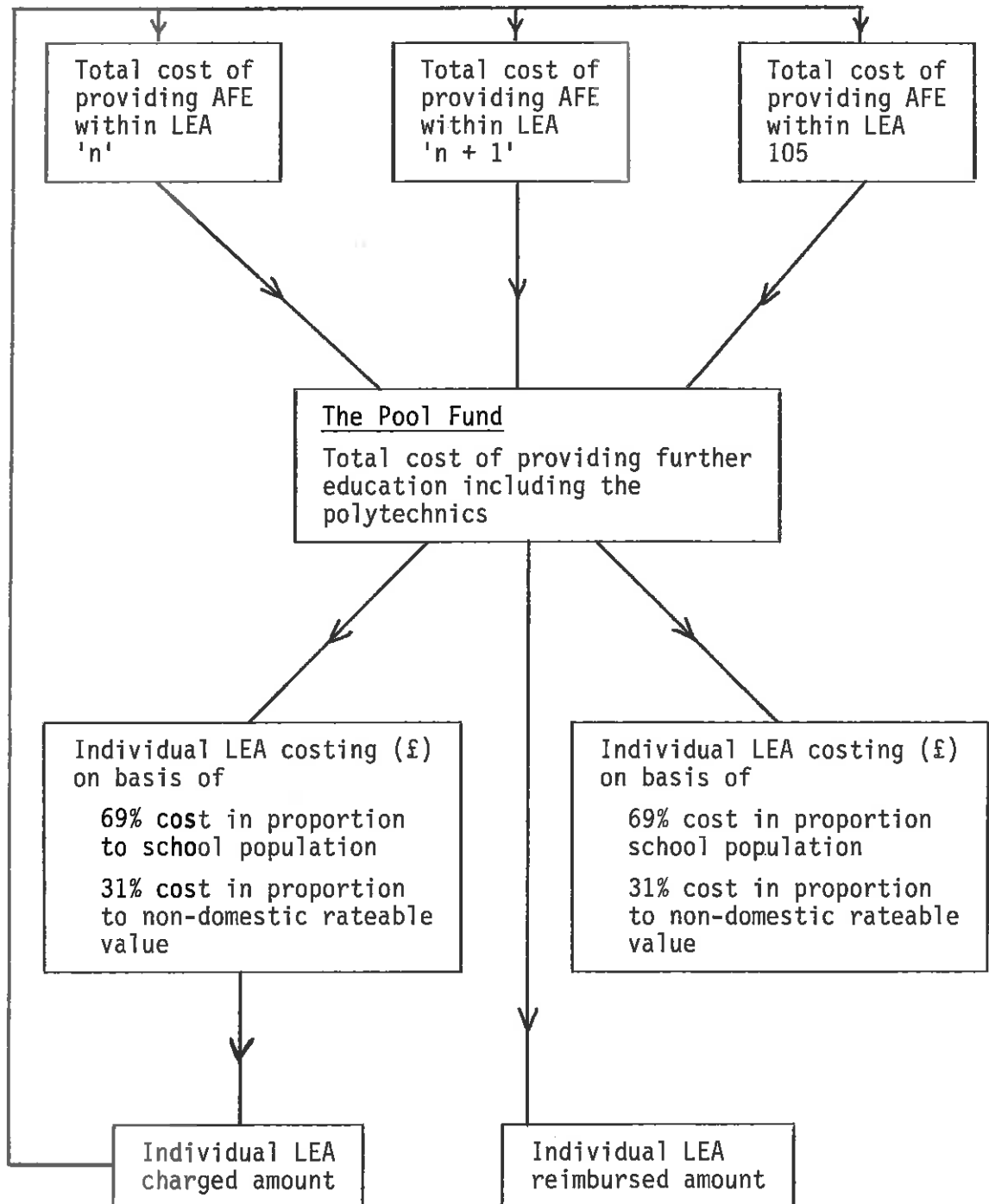
Finance for postgraduate students working at all institutions for advanced further education, obtain their support in the main from the research councils. In this case money comes from central government, via the DES, to the councils. Other sources include the DES itself,



The funds for education



Operation of the pool



which is directly responsible for several postgraduate awards for higher degrees in the arts and the humanities. The DES used to finance students on Postgraduate Certificate of Education courses directly, but such students are now the responsibility of local authorities. Postgraduate awards are not subject to parental means testing, are designed to cover all tuition fees and maintenance costs and are larger than mandatory awards. Recently, however, a greater proportion of postgraduate students are self-financed due to the shortage of central funds being available for such students, and also the greater number of students who come forward to follow postgraduate courses (this being a symptom of recession and unemployment, together with a need to offer more qualifications in the job market).

#### 4. Conclusion

The financing of education, as outlined above, is a rather complex mechanism, involving both central and local government and influences from the Department of Education and Science and the individual local education authorities. Further education appears more complex, due to the division of advanced and non-advanced work, and the way each is financed.

There is an increasing emphasis in education upon the need to obtain value for money, so that the latest expenditure plans 1985-86 to 1987-88 state 'The general purpose of the government's education policies is to ensure that the resources which can be made available to the education service are spent to the maximum benefit of all pupils and students'. However once those resources have been made available then, 'the level of service that will result will depend on the ability of local authorities and institutions to contain costs and manage resources, in line with the government's objectives, to the maximum education benefit of pupils and students'. This then, seems to imply a partnership between central government and the local education authorities and their institutions, or some form of co-operation. However, as noted, this type of co-operation is often a disguised or veiled form of control.

The plans indicate that for maintained advanced further education an increase has been made for 1985-86 against earlier figures (no actual figures are cited). The revised total is to allow for an increase in student numbers and a shift towards science and engineering, although such plans 'imply continuing reduction in unit costs and reductions in lecturer numbers'. In non-advanced further education colleges are expected to offer, 'in accordance with sound assessments of the needs of the economy and the wishes to prospective students', 'a wide range of', 'opportunities for study with emphasis on vocational provision'. The level of provision set by the government is regarded as adequate for local authorities, 'to respond to the growing and varied demands of NAFE'.

Capital expenditure (see section 2.5) was regarded as too high in 1983-84 and consequently during 1984-85 authorities were asked to 'exercise restraint'. A reduction of £18 million has been planned for 1985-86 which should help in the 'removal of surplus places and re-organisation of schools'.

The concern with economies and value, was also seen during 1985 with the publication of 'Obtaining better value from further education' which was a report from the Audit Commission based upon a study of 165 institutions in the public sector made during 1984. In principle, the findings of the report indicated opportunities to save around £300,000 per institution or £50 million on local projects. Some of the recommendations made to achieve these savings are now being implemented. The auditors consider that the schemes should be extended to the other 385 institutions. Four major areas were defined as providing areas for improvement opportunities.

- (a) Better marketing of FE courses
- (b) Tailoring teaching resources more closely to demand
- (c) Better cost recovery
- (d) Tight control over non-teaching costs

This later consideration of economies of finance highlighted by the Treasury and the Audit Commission, illustrates the way in which finance is very difficult to separate from policy at the central or the local scale. It is clear, however, that continued pressure will

be applied for economies across all sectors of education wherever possible. How such pressure will further affect educational provision, especially in the FE sector is still uncertain, but just as further education has changed and is still changing, the economic pressures which have contributed to those changes are themselves still changing. The transformation of further education is consequently still incomplete.

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## Appendix I

### A note on the Rate Support Grant

The Rate Support Grant (RSG) was introduced by the Local Government Act of 1966, and replaced both the general and rate deficiency grants introduced in the Local Government Act of 1958. The total amount of the RSG is fixed as a result of negotiation between the government (represented by the relevant departments, DES, DoE, etc) and the local authorities (represented by the Association of County Councils and Association of Metropolitan Authorities). In this way 'relevant expenditure' is determined, that is, the total expenditure by local authorities in the next two years on all services, except housing and trading entities. The two year period was reduced to one in the late seventies. The final expenditure figure is a result of discussions regarding estimates provided by the local authorities and estimates based on economic forecasts by the government. Such discussion is reflected in the Rate Support Grant Order. Having determined the figure, it is then necessary for government to fix the level of the RSG. This proportional share provided by central government was subject to several fluctuations between 1973 and 1979.

For individual local authorities, their proportional share of the RSG is found by use of a formula which is in three parts, each part reflecting the three elements of the grant.

- (a) Domestic
- (b) Resources
- (c) Needs

Pratt, Travers and Burgess (1978) point out that the domestic element is an attempt to cushion domestic ratepayers against the burden of rising costs. Whereas industrial ratepayers can usually obtain tax relief against profits in respect of rates, domestic ratepayers do not. Each year, therefore, the government offsets increases via the domestic element in the RSG. The domestic element for each authority is its domestic rateable value (DRV) multiplied by 0.185 (domestic relief of 18.5p in the £, set by central government) and is expressed as

Gd = (DRV) (.185) for England and

Gd = (DRV) (.36) for Wales.

The resources element gives poorer authorities money but not the richer, so that the latter are not penalised. The calculation involved is laid down under the local government act 1974 so that the element is payable if its rateable value per head (of a given authority) is less than a 'national standard rateable value per head', which was £177 in 1978-79. The difference between the actual total rateable value and that which it would obtain if it had the standard rateable value per head is then calculated. This difference figure is then multiplied by the authorities rate in the pound to give the sum the authority received from the government. Whereas some authorities need large amounts of financial help, the above average authorities remain above average, but the gap between richer and poorer authorities is reduced.

The needs element is an attempt to relate the income of a local authority to the costs which are made on it, but there are other factors such as education. The needs formula is liable to change as new needs are recognised by government. For example, the increasing awareness of urban authorities' needs has led to revisions of the formula. The needs formula is complex and during 1978-79 all authorities received grant based on their population at 2p per head. ('The safety net'.) However, a further 23 factors (including the population of the authority) are used in calculating the grant. Such additional factors vary due to the nature of each authority with different ones for non-metropolitan counties, metropolitan districts, the City of London, outer London boroughs and inner London boroughs. In making up the authorities grant, for each factor, a given number related to social, demographic or other factors is multiplied by a set sum of money. (See the following table, p. 31). In order to maintain continuity, and avoid sudden changes in the needs element calculations for authorities, each year's allocation is 'damped', which means a large part is based upon the previous year's formula. The 1978-79 allocation was based 25 per cent on the formula for that year, and 75 per cent on that for 1977-78. The use of the various factors in the calculations derives from attempts to establish statistical associations between several of these factors and the previous year's expenditure. The distribution formula derived from a statistical analysis of the given authorities' expenditure, attempts



1977-78 Rate Support Grant Needs Element - additional factors related to education

- |     |   |                                   |
|-----|---|-----------------------------------|
| (a) | The number of primary school pupils in their area, insofar as it exceeds 7.24 per 100 of the population of their area;  | multiplying that number by £458.1 |
| (b) | The number of secondary or special school pupils under 16 years of age in their area, insofar as it exceeds 6 per 100 of the population of their area;        | multiplying that number by £635.9 |
| (c) | The number of secondary or special school pupils 16 years of age or over in their area, insofar as it exceeds 0.3 per 100 of the population of their area;    | multiplying that number by £628.7 |
| (d) | The number of pupils under 16 years of age who are attending direct grant grammar schools at the expense of the council;                                      | multiplying that number by £504.1 |
| (e) | The number of pupils 16 years of age or over who are attending direct grant grammar schools at the expense of the council;                                    | multiplying that number by £477.9 |
| (f) | The number of further education students, full time or full time equivalent, in their area insofar as it exceeds 0.6 per 100 of the population of their area. | multiplying that number by £758.5 |

Source: Pratt, Travers and Burgess (1978)

to equalise the demographic and social disparities found across the authorities as a whole. Financial support is seen as necessary therefore, where an authority has a high school population, which would otherwise mean higher rates, or a lower 'standard' of education. The final needs element calculation is determined by multiple regression analysis which is explained by Burgess and Travers (1980), pp. 55-65.

The Local Government Planning and Land Bill (1980) contained legislations which replaced the needs and resources elements of the RSG by a new block grant. This grant was to include assessments of expenditure need for each local authority, and would be paid to both tiers of local government. In all, this new system was designed to be simpler. The RSG provided every eligible authority with the needs element to compensate for differences between their spending needs per head (including non-metropolitan counties), and also the resources element (including non-metropolitan districts). In total, therefore, most London boroughs, metropolitan districts and the areas of non-metropolitan counties (counties or districts) received both resources and needs elements. This meant that an authority with low spending needs received, if the rateable value per head was low, a large resources element, and an authority with a high rateable value still received a needs element. The block grant was designed as a way of evening out such overlaps, whilst enabling a lower total of grant than previously.

The operation of the block grant is in three stages. Firstly, an assessment is made of each authority's spending need. Secondly, a standard rate poundage is levied. This is the same in each local authority across the country and raises different amounts in rates as a result of each authority's rateable value. Thirdly, in each authority the amount raised by levying the standard rate poundage is taken from the assessed spending need figure and the difference is made up by the authority's block grant allocation.

<u>Operation of the block grant system</u>	(Stage 1)
Relevant expenditure: i.e. total of all local authorities spending on services over the next year	14109
Aggregate exchequer grant: i.e. the proportion (61%) of the expenditure figure that central government will cover	8607
Specific and supplementary grants: this figure is calculated by central government and deducted from the proportional figure set above (61%)	-1349
	to give
	<u>7258</u>
Domestic element: as determined by use of the national standard rate poundage set by central government (86p in £)	-687
	<u>6571</u>
is deducted giving the block grant figure of	

Source: Burgess and Travers (1980)

Having determined the block grant figure, each authority's grant allocation must be calculated. This is the difference between its expenditure need (less specific and supplementary grants) and the amount that would be raised by levying the national standard poundage.

<u>Distribution of the block grant</u>		(Stage 2)	
Authority	X	Y	
Assessed expenditure need	20	320	Stage 1
less			Determination of Need
Specific and supplementary grants	4	15	
	<u>16</u>	<u>305</u>	
Rate income as per National Standard Rate Poundage	6.9	77.4	Stage 2
	<u>6.9</u>	<u>77.4</u>	Levying of standard rate
Income from block grant allocation	9.1	227.6	Stage 3
	<u>9.1</u>	<u>227.6</u>	Determination of Difference

Source: Burgess and Travers (1980)

For a fuller discussion and explanation see Burgess and Travers (1980) pp. 42-65 and pp. 131-154.

## Appendix II

### Public expenditure on education and related services

£m's Source: DES Annual Reports 1978-1985

	<u>1979-80</u>		
	Current	Capital	Total
Further education	1067.2	76.8	1144.0
Universities (including student support)	1416.0	106.7	1522.7
Total expenditure	8084.5	520.3	8604.8
	<u>1980-81</u>		
Further education	1295.1	109.0	1404.1
Universities (including student support)	1785.8	115.8	1901.6
Total expenditure	9876.1	630.9	10507.0
	<u>1981-82</u>		
Further education	1473.3	87.9	1561.2
Universities (including student support)	1926.4	119.2	2045.6
Total expenditure	10863.1	526.3	11389.4
	<u>1982-83</u>		
Further education	1672	98	1770.2
Universities (including student support)	2052.0	120	2172.0
Total expenditure	11669.4	527	12196.4
	<u>1983-84</u>		
Further education	1762	91	1853
Universities (including student support)	2116	121	2237
Total expenditure	12324	516	12840

NB Total expenditure, includes all schools and FE institutions, but excludes loan charges. School-based FE is included in total expenditure but not in the FE total.

Appendix III

Net recurrent institutional cost per full-time student/pupil from public funds

		At 1982/83 prices (£)		
		81/82	82/83	83/84
Major establishments of further education excluding polytechnics				
Non advanced work		1890	2000	2095
Advanced work		2720	2875	3010
Polytechnics				
Non advanced work		3340	3405	3375
Advanced work		3050	3090	2975
Universities		4280	4590	4895
Total costs		<u>15280</u>	<u>15960</u>	<u>15350</u>

Source: DES Annual Report 1984