



PRIME MINISTER

ABOLITION OF THE ILEA

1. I have been considering, with the Secretary of State for the Environment, whether we should aim to abolish the ILEA during the next Parliament and if so how.

2. The first step is to set up the review envisaged by the Local Government Act 1985. We should state clearly in the Manifesto that we intend to do this after the Election. The Act requires the Secretary of State to lay a report of any such review before Parliament. We should aim to lay the report within a year. We shall probably receive a large number of representations when we announce the review. I would in any case suggest that we should invite evidence.

3. The review should focus on the three main matters of concern - the ILEA's educational performance; its extravagance and the discipline and control of its teachers. There is also a problem over the community charge.

EDUCATIONAL PERFORMANCE

4. As regards the educational case it is the secondary schools that give particular ground for concern. There are also problems in primary schools and FE but they are less acute. There has just been an HMI report on science teaching in 13 secondary schools in Greenwich which makes very depressing reading indeed. It indicated that in spite of very high resources the science teaching in 40% of the schools was less than acceptable and 10% unrelievedly bad. However the ILEA has also recently received publicity for measures such as the "Compact" between employers and schools in East London, its study of attainment screening at 7, 11 and 14, and the attempt at compulsory redeployment of surplus teachers. It can also argue that its poor examination results are explained by socio-economic factors. We would have



to be able to show that there were good educational reasons for changing the organisation of the ILEA.

FINANCIAL EXTRAVAGANCE

5. The charge of financial extravagance can be more conclusively measured than the charge of poor educational performance:

- ILEA is the highest spending LEA relative to GRE in the country. Its 1986-87 budget was 78% above GRE
- It spends 30% more per pupil than other inner city authorities and 60% more than Birmingham
- it educates 4% of children in maintained schools in England but is responsible for nearly 8% of LEA spending
- its administration costs are twice the national average.

Over the 3 years 1985-86 to 1987-88, ILEA's outturn and revised budgets are in total £190m below what it would have wished to spend but for rate-capping.

6. This year ILEA will certainly have to make some savings to get through. The more obvious devices for raising money "off the balance sheet" have been blocked but they are already at work devising some more ingenious ways of trying to keep their basic expenditure going.

MANAGEMENT OF TEACHING FORCE

7. The third problem concerns the discipline of teachers. ILEA employs the most radical and well-organised group of left-wing teachers under the Inner London Teachers Association. Their membership amounts to some 12,000 out of the force of 21,000



teachers. ILEA itself finds considerable difficulty in managing this labour force and we may well find it difficult to find people of stature to take on the business of running the whole of education in Inner London. This will mean dealing with this labour force. I would as Secretary of State certainly not want to be responsible for managing them.

COMMUNITY CHARGE

8. There is a separate financial problem, identified by the Secretary of State for the Environment, namely the effect upon what will be an already high community charge for Inner London ratepayers of taking on the further burden of ILEA's excessive spending above its GRE, which amounts to an extra £250 per head. Taking polytechnics out of local government makes a difference but it is not very much: the £250 per head extra community charge might fall to £225. To reduce the burden of the community charge in Inner London, ratepayers might be asked to bear no more than the equivalent of education spending by ILEA at GRE, the balance of £300 million being met by the Exchequer. The problem arises whether we keep a single LEA for inner London or hand education over to the boroughs, since in the latter case they would inherit its exceptional level of expenditure.

OPTIONS FOR REORGANISATION OF ILEA

9. There are three options: do nothing; allow the boroughs to "opt out", or transfer the existing ILEA to an appointed board.

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DO NOTHING OPTION

10. Under this option we would keep the existing ratecapping controls and slowly tighten the ratchet to squeeze out overspending. This would take a long time but ratecapping is now no longer the flagrant issue it was some two years ago. It is accepted widely and it is certainly popular with the ratepayers. They

and damage the education of many children (including my own)



have had the ILEA rate controlled for the last three years, and therefore there is no great ratepayer feeling against the cost of education in London at the moment. Indeed the gain to ratepayers has been great - £390m saved by the end of 1987/8. Rate-capping has been acquiesced in so far by LEAs because it has not affected expenditure much. The devices adopted to frustrate it are storing up trouble for the future.

11. We shall be able to continue to apply rate-capping year by year under the Rates Act 1984 when the 3 years of automatic application in the Local Government Act 1985 lapses. But the reform of local government finance will have another very important effect. It will bring ILEA into grant and push all its excess expenditure onto Inner London community charge payers. ILEA will lose the substantial advantage that it presently enjoys through its very high non-domestic rateable resources. In one sense that is a problem: as Nick Ridley has identified it contributes to very high community charges in Inner London. But in another sense it is an advantage: it creates proper accountability and hugely increases the pressure on ILEA to bring its expenditure down.

12. The do-nothing school would also be supported by those who say that ILEA was only recently set up as a directly elected authority and that we should at least let it run for the first four years and see what the ballot box does to control in 1990. Nor should we under-estimate the difficulty of getting a complete dissolution of ILEA through the House of Lords. It will have fewer friends than it had over the GLC Bill. I think the Churches have been pretty disenchanted by the way they have been treated since. But it will still have many formidable supporters.

13. Finally, the do-nothing option retains the threat of doing something, which might be a more effective sanction than pursuing an option which we cannot bring off.



OPTING OUT

14. The second option is to allow boroughs to opt out. We might envisage individual inner London boroughs submitting proposals to the Secretary of State to allow them to take over the education within their boundaries. They could even do this on a joint basis. If this were to happen I think the three Conservative controlled boroughs would certainly opt out. They would take over control either individually or in partnership.

15. The question arises as to whether the Labour boroughs would wish to take over education on an individual basis and if that is the case, handing over education to Hackney, Southwark or Lambeth might well be worse than leaving it with ILEA. We may not find it easy to control the process. Any decision to refuse an application to opt out would be subject to judicial review. There are no obvious criteria that would be sufficiently robust to enable us to distinguish between boroughs: since none of them at present have education functions we would have to look beyond education criteria and rely on broader financial considerations.

16. But in my view the most likely outcome is that the ALA, which is very strong in Inner London would seek to keep the Labour authority under some sort of joint working arrangement. Collaborative working between independent local education authorities does not have a good track record, unlike some other local authority services. The outcome of this option might be that alongside the inner boroughs which were allowed to opt out there was a rump ILEA.

APPOINTED BOARD

17. Neither of the first two options solves the problem of high community charges in Inner London. To do that, we should need to be more radical. One possibility is to transfer the



whole of the existing ILEA to an appointed board which might either be a precepting body financed partly by Exchequer Grant and partly by local taxpayers or financed wholly by Exchequer Grant. A note about the financial aspects of such an option is at Annex A. This option avoids re-organisation, and preserves the existing administrative and educational expertise. On the other hand, the Secretary of State would have to establish a very strong team of people to run education. There would be very considerable political disruption, certainly in East End schools.

18. It would be seen as a very controversial constitutional step, which would have to be commensurate with the problem we were seeking to solve and demonstrably a more efficient and effective way of managing education in inner London. Some form of consultation machinery with the churches, the business community and parents would be needed. But I doubt if that would be a sufficient answer to the accusation that we had taken away local democratic rights.

19. It might be presented as an interim measure, to take over an ailing organisation until its profligacy had been eradicated. But there would be problems in knowing how long such a body should last and when education should be restored to the local electorate.

THE CHOICE

20. My proposals to allow individual schools to opt out of ILEA management (which will apply in ILEA as elsewhere) will be a vital ingredient in the package. This will enable governing bodies and heads to escape the burdensome grip of the LEA. In the ILEA there is the incentive to escape from the ideology of the elected members. But there is also the incentive to escape from an organisation which is simply too big to manage



itself - and in particular its teaching force - effectively. The second option above - allowing the inner London boroughs to opt to become LEAs, subject to the Secretary of State's approval - seems to me to fit logically with this diagnosis and to be consistent with our decentralising philosophy, although it leaves the problem of the community charge to be solved by other means.

21. A key question is whether Hackney, Lambeth or Southwark would do worse than the ILEA. It is true that we have the unpropitious examples of Brent, Haringey, Newham and Ealing as outer London boroughs which are LEAs. It will be crucial to set up legally watertight arrangements whereby case by case we would be able to consider whether, on the merits, there were sufficient grounds for refusing to allow an application. In any event individual schools would still be free to opt out of management by local government.

22. The pattern might then be that some boroughs were allowed to become LEAs; some were not and so remained in a rump ILEA; and an increasing number of individual schools in some of those boroughs and the rump ILEA were opting out of LEA management.

23. There is something to be said for each of the three options, do-nothing, appointed board or opting out. My preliminary view is in favour of allowing boroughs to opt out reinforced by individual schools opting out as well. But I do not underestimate the difficulties of bringing it off if we meet determined opposition in the Lords. The review should enable us to judge this.

24. I am copying this minute to the Chancellor of the Exchequer and the Secretary of State for the Environment.

KB

Department of Education and Science

3 April 1987

Financial Aspects of Appointed Board Option

1. At present the ILEA receives some specific grant but no block grant because it benefits from high rateable values in London. With the reform of local government finance and the introduction of the community charge, it would receive needs and standard grant, but lose the resource benefit of London rateable values. The cost of high spending relative to needs (currently 70% above GRE) would fall on local tax payers through the community charge. Preliminary calculations suggest that, at present spending levels, ILEA's community charge will need to be some £250 per head higher than it would be for spending at GRE. This is a substantial part of the general problem for the introduction of the community charge caused by the initial very high level of community charges in Inner London.

2. A Board could be set up either (a) as a precepting authority like the present ILEA and financed partly by grant and partly by local tax payers (ie community charge payers after 1990); or (b) financed wholly by Government grant.

3. On option (a), the Board would receive grant and non-domestic rate income in the same way as local authorities, and precept on local tax payers for the balance of its expenditure. On this option, the replacement of ILEA by the Board would not prevent the cost falling on local tax payers from being extremely heavy at least for an initial period while the Board is bringing ILEA expenditure under control. To reduce the local burden, the Government might arrange for the Inner London community charge to bear education costs comparable with the higher end of the range for urban authorities outside London (ie about 30% above GRE). The balance of the Board's expenditure would be met by the Government's subvention, to be reduced annually over a transitional period. At the outset the subvention might amount to £200m.

C O N F I D E N T I A L

4. Under option (b), all the Board's finance comes in the first instance from the Exchequer. That is simple, and would give the Government final say over the expenditure policies of the Board. But there is no reason why local tax payers in Inner London, unlike those elsewhere in the country, should pay nothing directly for their education service. In theory this consequence could be averted by reducing Government grants to the Inner London Boroughs to offset the cost of the grant to the education board. But that would do nothing to relieve the burden on the community charge in those boroughs, unless there was a transitional Government subsidy to the Board as in option (a).

5. Whether (a) or (b) is preferred, the community charge in Inner London in respect of education would in the long-run be reduced by cutting spending, but in the short-run a significant reduction would require Government subsidy. The Government could either accept that subsidy as an additional charge on the Exchequer, or deduct it from the Aggregate Exchequer Grant to local authorities. In the former case tax payers, and in the latter case community charge payers outside London, pay for the relief.

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Prime Minister

ILEA

I have seen Kenneth Baker's minute of 13 April with proposals for ILEA. WITH DN?

My particular concern with ILEA stems from the level of the community charge they will have to levy when the Green Paper finance system is introduced in 1990. Malcolm Rifkind has already announced that the community charge will be introduced in full in Scotland in 1989. I too am keen to have the minimum of transitional arrangements in England following the introduction of the community charge here. I am at present looking closely at what can be done, but there is no doubt that we have a major problem in inner London, arising in large measure from the fact that ILEA are spending so far above their needs assessment. Under the Green Paper proposals, ILEA will receive needs and standard grant. Even so, at present levels of spending, community charge payers throughout inner London will have to pay sums of the order of £250 per head more than they would pay if ILEA were spending at the level of its needs assessment. This means that even in Wandsworth which itself is spending below its needs assessment, the community charge will be about £400 per head, compared with a national average of £205. And in other parts of inner London it will be significantly higher than this. Unless we can deal with ILEA and deal with it in the short term, there can be no hope of avoiding complex transitional arrangements.

In the longer run, Kenneth's proposals for Government Maintained schools will assist. But it seems to me that even in the short run we must take action which will (a) bring ILEA's costs down to a reasonable level, and (b) while this is happening, prevent the



full burden of their costs flowing through to the community charge payer. I understand why Kenneth sees difficulties in the idea of an appointed Board, and prefers arrangements for individual boroughs to opt out. But if we are to get ILEA's costs down I can see little real alternative to an interim Board or Trust with a management committed to getting spending down to economical levels. Necessarily it will take time for even a committed management to achieve this; hence the need for interim assistance to the local taxpayers as well. What I propose here is that the local taxpayer should be required to bear the cost of education spending in inner London up to the kind of level that is not unusual in inner urban areas. There is, in fact, a wide range but I believe a figure of 15-20% above needs assessment might be reasonable. In the case of Wandsworth taxpayers which I quoted above, such an approach might give a community charge of £200. The balance of ILEA expenditure above this level (£350-400 million) should, I suggest, be met by a special grant to the local taxpayers, tapering away over a small period of years as costs can be brought down.

Copies of this minute go to the Chancellor of the Exchequer and the Secretary of State for Education and Science.

A handwritten signature in blue ink, appearing to be the initials "NR".

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7 April 1987