

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP  
Secretary of State for Education and Science  
Department of Education and Science  
Elizabeth House  
York Road  
London  
SE1 7PH

W B M .

30<sup>th</sup> July 1987

Dear Ken,

**E(LF)(87)30: THE EXPENDITURE OF THE ILEA  
FUTURE FUNDING OF POLYTECHNICS AND COLLEGES**

In discussion of your paper on ILEA in E(LF) on 27 July we did not touch upon the issue of what to do about ILEA's topping-up of its polytechnics and colleges. This letter provides my comments on your proposals for ILEA and, since they are the same, on your proposals for dealing with topping-up of all polytechnics and colleges in England after their transfer from the local authority sector which were put forward in your letter of 23 June to Nicholas Ridley.

My starting position is the agreed policy that the transfer should be financially neutral as between the ratepayer and the taxpayer. Clearly, any phasing out of topping-up after the transfer must be offset by a deliverable reduction in local authority spending. Your proposal would do that; but I share Nicholas Ridley's view that simply adjusting LA provision and AEG on a national level would validate what amounts to overspending by certain particular authorities, and would absolve them of the responsibility for paying for it by spreading it across authorities generally. I am concerned, too, by a further point. Your proposal would also remove the incentive on LEAs to reduce their topping-up before the transfer. It is our agreed policy for topping-up to be squeezed out as far as possible before 1 April 1989, and that calls for an incentive on the authorities concerned to rein back, not a signal that their spending above the pooled level will be visited on others.

CONFIDENTIAL

It seems to me that, to deal with this limited issue of topping-up, the right course must be to recover the cost of any necessary phasing out from the particular authorities who will have incurred it. You raised doubts about the practicability and the principle of this. On the principle, it seems reasonable to look to local authorities to pay for the immediate consequences of their conscious spending decisions. On the practicalities, I can see that direct recovery would not be as straightforward as deduction from LA provision and AEG. But if we leave aside that topping-up which is payment for specific services (where it will be for LEAs to decide whether they wish to continue contracting with the transferred institutions), then I am not convinced that it would be wholly impracticable to identify and recover that part of any remaining general subsidies which could not be withdrawn immediately on transfer.

I would therefore be grateful if you would consider the recovery option again.

I am copying this letter to Nicholas Ridley, to other members of E(LF), and to Sir Robert Armstrong.

*Yours Ever,  
John*

JOHN MAJOR

