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P 02901

PRIME MINISTER

ILEA: MEASURES TO REDUCE OVERMANNING

[E(LF)(87) 44]

DECISIONS

The Sub-Committee needs to decide two issues:

- i. whether to introduce direct controls over the ILEA's manpower, with a view to enforcing reductions in overmanning;
 - ii. whether to provide financial assistance to inner London boroughs which opt out of the ILEA from 1990/91, and possibly to the rump of ILEA itself, to help meet the cost of compensating staff for redundancy and detriment.
2. On manpower controls, Mr Baker argues strongly against either using the existing control for 1988/89 or taking new powers for subsequent years, despite E(LF)'s strong preference for direct controls when this was last discussed. Instead he favours the use of rate capping powers to impose substantial reductions in the ILEA's expenditure, possibly including the imposition of conditions on manpower numbers if the ILEA applies for redetermination of its annual Expenditure Level.
3. On assistance with the costs of staff compensation, Mr Baker seeks agreement to a limited grant scheme to assist:
- i. boroughs which opt out to pay redundancy costs incurred in slimming down the number of transferred staff;

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ii. boroughs which opt out to meet detriment payments to ILEA staff whom they employ at lower rates; and

iii. ILEA to slim down its central administrative staff following opting out.

BACKGROUND

4. E(LF) discussed the projects for achieving reductions in the ILEA's high level of spending in the run up to the introduction to the community charge in 1990/91 on 22 July (E(LF)(87)17th Meeting). They agreed that it would be essential to use precept limitation to secure the maximum possible reductions in the ILEA's expenditure. But they also felt that there was a strong case for going further, and controlling the ILEA's manpower directly. Mr Baker was asked to bring forward detailed proposals for achieving that, through the existing power for 1988/89 and under new powers thereafter. The existing power applies also to the joint authorities for police, fire and passenger transport which were created on the abolition of the GLC and the metropolitan counties: E(LF) took the view that the new powers should probably apply to these authorities as well as the ILEA.

5. E(EP) discussed the staffing aspects of the right for inner London boroughs to opt out of the ILEA on 30 July (E(EP)(87)4th Meeting). Mr Baker raised the possibility of financial assistance with compensation costs, and was asked to consider this further with the Chief Secretary, Treasury.

MAIN ISSUES

Manpower Controls

6. Mr Baker's main reasons for opposing direct manpower controls are as follows.

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i. ^{manpower} Detailed manpower limits would be difficult to set and police, particularly using the existing power which has no sanctions for non-compliance and a number of other defects. They would drag the Government into operational decisions about the running of education in inner London, with massive scope for controversy and possible legal challenge.

ii. The rate capping powers should allow the Government to enforce cuts in the ILEA's expenditure and therefore eventually in manpower which accounts for two-thirds of the authority's costs. The power to impose "requirements" on the ILEA when it applies for a redetermination of its expenditure level (as it has for 1988/89) provides an opportunity to set conditions about manpower.

iii. Detailed manpower controls could undermine rate capping. Mr Baker believes that the maximum manpower cut which could be achieved through natural wastage is about 5 per cent. Higher cuts would involve redundancy costs. Any manpower limit might therefore look inconsistent with an expenditure level which requires cuts of 11 per cent in real terms.

Mr Baker is likely to be particularly concerned about the final point, and is unlikely to agree to run manpower controls in parallel with rate capping unless the Attorney General advises him that he is on sound ground.

7. Against this, the advantages of direct manpower controls would be:

i. that they would ensure some reductions in staffing, something which rate capping since 1985/86 has so far failed to deliver;

ii. there may in fact be more scope for reductions through natural wastage than Mr Baker suggests. The actual rate of wastage is around 10 per cent, and he is assuming that he

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would have to allow the ILEA to fill roughly half these posts to keep the education service running. That may be pessimistic given the scope for redeployment;

iii. even if the Government had to aim for a lower level of cuts using manpower controls and rate capping together than if it had operated rate capping alone, it might actually achieve more because a manpower control would be much more difficult to evade.

It was arguments of this sort which convinced you earlier that there was a strong case for manpower controls.

8. The arguments are more about means than about ends. There are also legal considerations: rate capping is at least a fairly well tried and tested form of control, whereas manpower controls would be completely new. You will want to weigh the advantages and disadvantages set out above, and decide whether to confirm E(LF)'s earlier preference for manpower controls. If you do, you will want to ask Mr Baker to bring forward very quickly firm proposals for the use of the existing power for 1988/89 and for legislation to impose a new control in subsequent years.

A.H.C.
9. If you decide on direct manpower controls for the ILEA, you will need to decide whether they should also extend to the police, fire and passenger transport joint boards, which are all covered by the existing legal powers. It might be possible to justify controls on the ILEA alone as a transitional measure pending the new right for boroughs to opt out of the authority. In that case the Education Bill would seem the right vehicle, although it would probably make the Bill even more controversial. On the other hand there might be a case for a general extension of the existing power in relation to all the joint boards, probably in the Local Government Bill. But the Home Secretary is likely to resist any extension new control for police joint boards. The Transport Secretary will argue that the passenger transport boards have so few staff that powers to control their manpower are irrelevant.

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Nevertheless you will want to consider whether it would be less contentious to extend any new control to all the bodies covered by the the present legislation.

Financial Assistance with Staff Compensation Costs

10. Mr Baker's proposals to provide assistance with staff compensation costs would clearly have some advantages.

i. They would allow boroughs which opted out to slim down the level of staff they inherited as fast as they felt was practicable without concern for the financial consequences.

ii. Any reductions they achieved would result in an immediate reduction in the community charge they had to levy, so there might be early benefits for community charge payers.

iii. Assistance to the rump ILEA to slim down surplus administrative staff after opting out would help to deflect criticism that the authority was being left in an impossible position, and would reduce the burden on community charge payers in boroughs which remained in the ILEA.

11. On the other hand, there are arguments against special assistance.

i. If redundancies occur early enough in the financial year there is often no net cost: compensation costs are on average more than balanced by the avoidance of salary costs. (However in the case of education it may be difficult to impose redundancies in some areas until the summer, between two academic years.)

ii. No such assistance was given when the GLC and the Metropolitan County Councils were abolished. Redundancy costs had to be met from local resources.

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iii. It would mean either an additional charge on the Exchequer or a diversion of money for within the existing total of Exchequer grant to inner London boroughs. The latter course would draw criticism from authorities elsewhere.

12. You will want to weigh these advantages and disadvantages carefully. One relevant factor is that you have agreed a limited scheme for assistance with the cost of redundancies at grant maintained schools. Assistance for opting out boroughs could be presented as an extension of that decision.

VIEWS OF OTHER MINISTERS

13. The Chief Secretary, Treasury is likely to resist all Mr Baker's proposals. He will argue that it is necessary to control the ILEA's manpower directly. For 1988/89 he would probably accept control through conditions imposed on the redetermination of the ILEA's expenditure level for rate capping. But he is likely to press for new powers to control manpower in subsequent years (probably for the ILEA alone rather than for all the joint boards). He is also likely to resist any financial assistance with redundancy costs, quoting the abolition precedent. The Environment Secretary is also likely to favour some form of manpower control, although he too would probably accept the use of rate capping conditions for 1988/89. He will probably resist any financial assistance with staff compensation, particularly if it means a new specific grant at the expense of block grant. The Home Secretary and the Transport Secretary are both likely to resist the extension of any new manpower controls to their joint boards.

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HANDLING

14. You will want to ask the Education Secretary to introduce his paper. The Environment Secretary, the Chief Secretary, Treasury, the Home Secretary and the Transport Secretary will all wish to comment on the issue of manpower controls. The Environment Secretary and the Chief Secretary, Treasury will want to comment on the proposal for financial assistance with staff compensation costs.

R.T.J.

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Cabinet Office
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