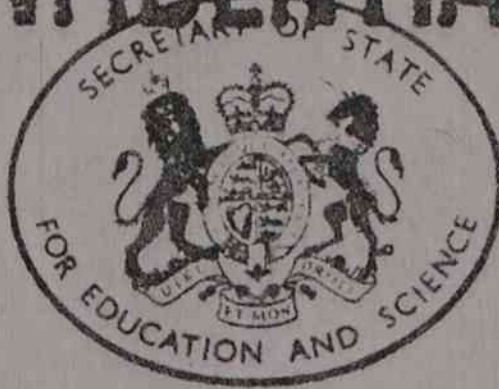


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ELIZABETH HOUSE  
YORK ROAD  
LONDON SE1 7PH  
01-934 9000

The Rt Hon Viscount Whitelaw PC CH MC  
Lord President of the Council  
Privy Council Office  
68 Whitehall  
London SW1

1 December 1987

Prime Minister #1

Content, subject to colleagues?

Yes no

DLV  
2/12.

Jan Miller

ILEA: Application for redetermination of 1988-89 Expenditure Level

We agreed in July to determine the Expenditure Level for the ILEA for 1988-89 at £955m. This represented a cash standstill on the implied EL for 1987-88 plus an allowance for the follow-through of the teachers' pay settlement in 1987-88. On 16 October ILEA submitted an application for redetermination of the EL for 1988-89 at £1,118m and on 20 November they submitted additional material estimating their requirement at £1,133m, implying increases in the EL of £163m and £178m respectively. Among the additional material was a plan for the achievement of a 15% reduction in expenditure over the three years from 1988-89 to 1990-91.

I have considered all the material that the ILEA have submitted and I had a meeting with their representatives yesterday afternoon. The announced EL represents a one-year cut of about 11% on our reckoning of a realistic baseline for 1988-89, and about 16% on ILEA's own calculations. The squeeze is slightly more than we anticipated in July given the revision of the GDP forecast for 1988-89 from 4% to 4.5%. This is a larger one-year reduction than any other education authority has ever achieved. On the basis of our assessment, it will mean about 4,500 redundancies including premature retirements associated with redundancy on top of about 5,000 staff savings through natural wastage, which assumes that 2 out of every 3 posts becoming vacant will not be filled. Even allowing for present generous staffing levels, this is bound to raise problems for schools and colleges but in my view the impact could be contained through firm management, selective redundancies and effective redeployment. In practice however we must recognise that there may well be some disruption and dislocation of services, including

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widespread industrial action, which ILEA and others will blame on Government. ILEA may also seek to make immediate cuts in what they consider to be the politically most embarrassing areas such as adult education or the polytechnic sector, which is to be removed from their control in 1989-90. Nonetheless I have concluded that nothing in the material put to me and representations made to me by ILEA, or any other relevant matters, should lead me to the view that the EL is unreasonable or that I should redetermine the EL so as to mitigate the rate of reduction implied.

Wouldn't cuts in schools be more difficult for the Government?

It is highly likely that ILEA will seek judicial review of my decision on the grounds that it is unreasonable to expect them to make the cut implied by the EL in one year. There is one matter on which I believe I need to act both on the merits of the case and to buttress my position in any legal challenge. As I have said, the ILEA are likely to have to make redundancies to manage the reduction. The authority have implicitly recognised this in their application for redetermination. The EL is at the limit of what is practicable but we have made no provision for the cost of redundancies. In my view, supported by advice from Counsel, that could be judged to be unreasonable. My assessment is that ILEA would need to make redundancies costing up to £25m to meet the EL. By implementing stringent economies elsewhere it might be possible to limit the redundancy bill to £15m. I believe I must at least allow for that minimum figure. I would however want to ensure that this addition could only be spent on covering the cost of compensation for redundancies, including premature retirement for reason of redundancy. Hence I intend to place a requirement to that effect under Section 3(6) of the Rates Act 1984 and would, as advised by Counsel, consult ILEA on this intention. A draft of the notice I would serve on ILEA and the letter of consultation is attached.

On the latest estimate of penny rate products in inner London in 1988-89, supplied to the Home Office by the rating authorities, a precept maximum of 80.29p would be needed to finance an EL of £955m plus £15m for redundancies. This would be 0.6p or 0.7% above the 1987-88 maximum precept of 79.73p, as against the 94p or 18% implied by the highest ILEA estimate of spending at £1,133m.

I would be grateful for the agreement of you and other colleagues

- (1) that we stand by the reduction in expenditure implied by the EL for 1988-89 set in July;
- (2) that I redetermine that level at a figure £15m higher but place a requirement on ILEA that the addition may only be used to help to pay for redundancies;
- (3) that I propose a precept maximum of 80.29p.

I am sure it is right to take the toughest possible line with

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ILEA and I believe my proposals represent the maximum possible one-year cut that could be deemed reasonable.

It would be helpful to have your agreement by close of play on Thursday of this week. I would then intend to write to the Authority early next week setting out my intention to place a requirement and giving them a few days to comment.

I am copying this to other members of E(LA), to the Attorney General, and to Sir Robert Armstrong.

*Johnson*  
*Armstrong*

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DRAFT PROPOSED LETTER FROM THE PRINCIPAL FINANCE OFFICER OF THE  
DES TO THE CLERK TO THE ILEA

Having considered your letters of 16 October 1987 and 20 November 1987 and heard representations from ILEA members, the Secretary of State is minded to re-determine the expenditure level for the ILEA for 1988-89 at £970m, being £15m more than that originally notified. He is minded to impose upon the ILEA a requirement that the additional £15m shall be used only for the purpose of meeting obligations of the ILEA towards persons who retire prematurely or are dismissed by them, in each case for reasons of redundancy. This increase for this purpose should assist the ILEA in meeting the scale of financial savings which the ILEA need to achieve within a short timescale (paragraph 8 of Appendix 2 "Large reductions in expenditure in 1988-89" attached to your letter of 20 November). I attach a draft notice which the Secretary of State is minded to serve on the Authority accordingly.

However, before he takes any final decision on the imposition of such a requirement, the Secretary of State wishes to take account of any representations the ILEA may wish to make. Any such representations - relating either to the substance of the decision or to the terms of the notice - should be addressed to me and must reach me by [a date 7 days later].



DRAFT

RATES ACT 1984: SECTION 3(5) AND SECTION 3(6)

NOTICE OF THE RE-DETERMINATION OF AN EXPENDITURE LEVEL AND OF THE IMPOSITION OF AN ASSOCIATED REQUIREMENT

To the Inner London Education Authority

WHEREAS -

(1) The Secretary of State for Education and Science has considered the application made by the Authority under Section 3(4) of the Rates Act 1984 ("the Act") for a re-determination of the level of total expenditure for the Inner London Education Authority for the financial year beginning on 1 April 1988. He has considered the information submitted with the Authority's application, the additional information furnished by the Authority, the representations made by members of the Authority and such other matters as he thought relevant; and has had regard to the extent to which the Authority's proposed expenditure was to consist of contributions to charities registered, or excepted from registration, under section 4 of the Charities Act 1960; and

(2) following such consideration, the Secretary of State has decided to redetermine the said level at a greater amount and to impose on the Authority the undermentioned requirement.

NOW, therefore, in accordance with section 3(8) of the Act, notice is hereby given as follows:

1 In exercise of the power conferred by section 3(5) of the Act, the Secretary of State has redetermined the level for your total expenditure for the financial year beginning on 1 April 1988 at the greater amount of £970 million.

2 In exercise of the power conferred by section 3(6) of the Act, the Secretary of State has imposed on you the following requirement:

That an amount of not less than £15 million out of revenue arising for the year ending 31 March 1989 shall be set aside and

-  
a) used to meet obligations of the Inner London Education Authority towards any employee dismissed by them by reason of redundancy or in the interests of the effective discharge of the Authority's functions in the year ending 31 March 1989 to pay to that employee:-



- i) Any redundancy payment to which he is entitled under the Employment Protection (Consolidation) Act 1978.
- ii) Any [lump sum] compensation to which he is entitled under the Teacher's (Compensation for Redundancy and Premature Retirement) Regulations 1985.
- iii) Any [lump sum] compensation to which he is entitled under [appropriate provision in relation to non-teaching staff].

b) in so far as this amount is not used by the Authority for the purpose referred to in paragraph (a) above it shall be used to meet the obligations there described in relation to employees who may be dismissed by the Authority for either of the grounds there described in the year ending 31 March 1990; and

c) in so far as it is still not used by the Authority for the said purpose it shall be transferred to the general reserve of the Authority and carried forward to the next accounting period of the Authority.







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CCBG



PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

7 December 1987

Dear Kenneth

NBM

ILEA: APPLICATION FOR REDETERMINATION OF  
1988/89 EXPENDITURE LEVEL

You wrote to me on 1 December seeking E(LA)'s agreement to redetermine ILEA's 1988/89 Expenditure Level at £970m.

You will have seen from her Private Secretary's letter that the Prime Minister is content. Nicholas Ridley and John Major have also written signifying their agreement subject to confirmation (which I understand you have given) of three points raised by Nicholas about satisfactorily ring fencing the extra money. No other colleague has commented and you may take it therefore that you have E(LA)'s agreement to proceed as you propose.

I am sending a copy of this letter to the Prime Minister, the members of E(LA), the Attorney General and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be "John Major".

The Rt Hon Kenneth Baker MP

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EDUCATION: ILCA P 5





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CC BG



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

NBM

4 December 1987

Dear Secretary of State,

**ILEA: APPLICATION FOR REDETERMINATION OF 1988-89  
 EXPENDITURE LEVEL**

Your letter of 1 December to Willie Whitelaw sought agreement to redetermine ILEA's 1988-89 EL at £970 million, but to earmark the proposed addition of £15 million above the initial EL specifically to meet the costs of redundancies. I have also seen the letter of 3 December from Nicholas Ridley and from No.10.

I too welcome the robust line you have taken in proposing to stand by the reduction in ILEA's expenditure implied by the EL for 1988-89 set in July. I believe that your intention to earmark the proposed £15 million addition to that initial EL specifically for redundancies represents the best means now available to us to achieve reductions in ILEA's manpower next year. On that basis, and subject to the further condition proposed by Nicholas that the addition should form no part of the starting point for determining ILEA's 1989-90 EL, I am content with your proposal.

I am copying this letter to the Prime Minister, Willie Whitelaw, other members of E(LA), Patrick Mayhew and to Sir Robert Armstrong.

Yours sincerely,

PP JOHN MAJOR

(Approved by the Chief Secretary +  
 signed in his absence).



Education

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bc: B9

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

3 December 1987

*Dear Chris,*

**ILEA: APPLICATION FOR REDETERMINATION OF  
1988-89 EXPENDITURE LEVEL**

The Prime Minister has seen your Secretary of State's letter of 1 December to the Lord President about the expenditure level for the ILEA in 1988-89, and is content, subject to the views of colleagues, with the way he proposes to proceed.

I am copying this letter to the Private Secretaries to members of E(LA), the Attorney General, the Lord President and Sir Robert Armstrong.

*Jan,*  
*David*

(DAVID NORRGROVE)

Chris de Grouchy, Esq.,  
Department of Education and Science.

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*DTS*