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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

28th January 1988

Dear Secretary of State,

ILEA: PRECEPT MAXIMUM FOR 1988-89

attached

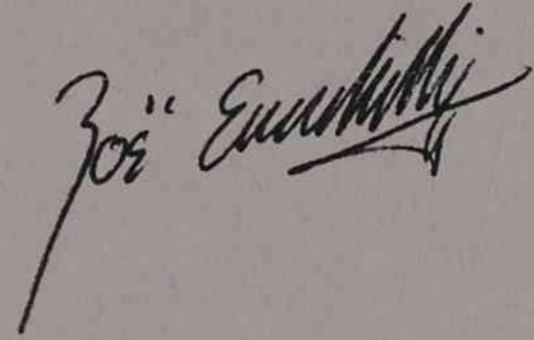
Thank you for your letters of 25 and ~~27~~ 27 January. We discussed with Nicholas Ridley, in the margins of Cabinet this morning the proposal in your 27 January letter to increase ILEA's 1988-89 precept maximum from 80.56p to 82.64p in order to allow it to raise a further £25 million.

I agree that we must take seriously Howard Davies' judgement about the feasibility of ILEA's achieving the level of reductions in expenditure implied by your original proposal in a single year. I welcome your firm line that ILEA should nonetheless be required to make more stringent cuts than it has so far offered. But as I explained this morning, I was not able to agree to your increasing the precept maximum by the full amount you propose for two reasons. First, there is evidence of scope for ILEA to raise significant amounts from sales of surplus assets, on which its record to date has been very bad. I believe we can reasonably look to it to exploit some of that scope. Second, as I mentioned this morning, an increase now in the precept maximum would technically go to increase reserves. I am concerned about the read-across to the rate maxima for selectively rate-capped authorities. To increase ILEA's precept maximum by the full amount you propose might lead to challenge, including in the courts, by those other authorities on grounds of inconsistent treatment. We therefore agreed that the most we could accept would be an increase of 1.24p to 81.80p, which would yield increased precept income of £15 million.

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I am copying this letter to the Prime Minister, other members of E(LA), to the Attorney General and to Sir Robin Butler.

Yours sincerely,

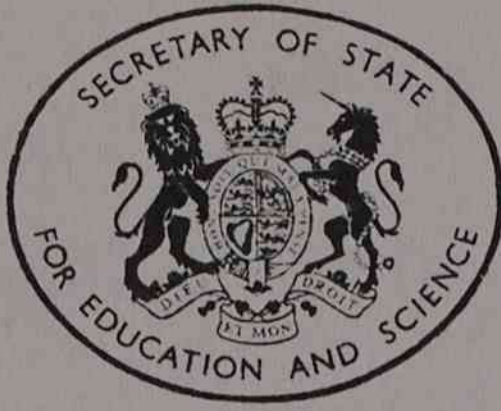
A handwritten signature in cursive script, appearing to read "John Major".

JJ JOHN MAJOR

(Approved by the Chief Secretary
and signed in his absence)

Prime Minister

Mr. Baker will be putting a proposal to you on ILEA later this week. Meanwhile you might like to be aware of this proposed easing of the precept which Mr. Baker sees as necessary to prepare the ground. I gather the Chief Secretary might haggle on the precise figures, but that an amicable settlement is likely to be reached tomorrow.



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The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
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ILEA: PRECEPT MAXIMUM FOR 1988-89

We spoke about ILEA's precept maximum for 1988-89. My officials have also been in touch with yours and with Nicholas Ridley's.

I explained that since I wrote to you on this subject on 25 January, I have had discussions with Howard Davies, the Controller of Audit of the Audit Commission, about the practicability of the precept maximum which I have proposed. His judgement is that the Authority could go further than it has said is feasible towards cutting its spending in 1988-89, and could achieve the scale of reductions proposed if it had more than a single year to do so. However, he put it to me that ILEA cannot achieve the level of reductions implied by the proposed precept maximum in a single year. It is his view that if we drive through the proposed precept maximum, the Authority could end up in complete financial disarray in 1988-89. I believe that we must take this advice very seriously. It stems not only from the Audit Commission's wide experience of how to achieve greater efficiency and economy in local authority services but also from feedback from auditors working in ILEA.

I have therefore looked again at the position I outlined in my letter. My estimate of the savings which ILEA would be forced to make in 1988-89 on a precept of 80.56p is £120m, £24m below the Authority's estimate. I believe that we should maintain that £24m squeeze on their baseline. The Authority has said that it could at most achieve savings of £65.5m. It has suggested that it would also draw down its balances by £5m. On my estimate, that would leave £25m of reserves at the end of 1988-89. The

Note

During the course of today Mr. Baker agreed with the Chief Secretary and Sir Ennals a precept increase of £15m. rather than £25m. Having consulted Des I told the P.M. this would add, on average, 0.7% to London borough rates. She was content with this, and I then told Tom Toffey (DfS) they were free to proceed.

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How much more is there on London borough rates?

measures the Authority envisages to deliver savings of this order are not trivial. They include the loss of some 6,000 staff - 1,500 through redundancy - as well as very substantial cuts in many non-staffing areas such as maintenance, capitation and awards and substantial rises in charges. Strong political will and firm management will be needed.

The Authority's package nevertheless falls £50m short of the level of reductions implied by the precept. It is this grey area which is of concern to the Audit Commission. I am reasonably confident that the Authority could go part of the way to closing this gap by making more stringent savings. The ILEA Conservatives have suggested that another £15m of savings are achievable. I believe that they can reasonably be expected to achieve a further £25m: up to £10m through leaving more than 1 in 3 teaching vacancies unfilled; up to £5m from further redundancies; and £10m from imposing deeper cuts on non-staff spending.

My discussions with the Audit Commission have persuaded me that I should not rely on the feasibility of savings beyond this point. Nor do I think I can assume further drawing down of estimated reserves.

The financial collapse of ILEA would be profoundly damaging to our developing policies for education in inner London. In the light of Howard Davies' advice, I have come to the view that we should revise the precept maximum of 80.56p which I originally proposed to allow the Authority to raise a further £25m. This would I think be sufficient to provide the necessary insurance against the possibility of collapse in 1988-89, but would still ensure that the Authority was forced to make substantial savings. It would technically go to increase their reserves but the expectation would be that they would use it to bridge the gap between savings and the expenditure level. On this basis, the precept maximum would be 82.64p, 3.6% higher than the 1987-88 maximum, and the implied cut against my estimate of ILEA's baseline would be 9% rather than 11%. I believe that no education authority has ever achieved an 11% year on year cut.

I would be grateful for agreement from you and colleagues that I should go ahead on this basis. Under the normal conventions of the House, I would need to lay a draft Order prescribing the precept by Friday 29 January. I understand that Douglas Hurd and Paul Channon are working to the same timetable as regards the precept limits for which they are responsible. I think that it would be presentationally difficult to delay laying the ILEA Order. If you agree to my proposals, I would intend to notify ILEA of my decision on Friday morning and invite them to agree the new maximum, although I doubt if they will decide to do so. With apologies for the short deadline, I hope that you and others will let me have a response by close of play tomorrow, Thursday 28 January.

I am copying this letter to members of E(LA), to the Attorney General and to Sir Robin Butler.

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