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PRIME MINISTER

INNER LONDON TRANSITION GRANT

1. ^{*Attached*} In E(LF)(89)3 Nick Ridley proposed a specific grant for transitional education costs in inner London which would give the boroughs an opportunity to reduce inherited overspend from ILEA before it falls on their chargepayers. The Committee broadly endorsed the proposal but asked for the details to be considered further.

2. I have consulted Nick and John Major and set out below the conclusions we have reached.

3. ILEA is budgeting to spend about £1000m in 1989-90. The Authority would undoubtedly be spending a great deal more without successive years of precept limitation. Nevertheless, their spending is significantly above the figure of between £750m and £800m for education in inner London which is emerging from the current work on assessments for standard spending. That gap will place a heavy burden on chargepayers until the boroughs can begin to get to grips with the root causes of the overspend.

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4. E(LF)(89)3 indicated that on the basis of an analysis of the potential for longer term savings the grant might be set at the level of £100m in the first year. This would not of course represent the total implied gap of £200m-£250m between assessment for standard spending and likely actual spending when both the safety net and transitional grant are phased out. However I accept that £100m is a reasonable figure for the purpose of affording some protection to chargepayers, and the community charge exemplifications in papers E(LF)(89)3 and 4 are calculated on this basis. Those exemplifications also assume that the transitional grant is outside rather than inside the safety net. This will allow it to have maximum impact on community charges in the first year. It also prevents the grant's distribution from interacting with that of whatever safety net arrangements we agree upon. The grant will be within AEF but not deducted from standard spending.

5. We have considered the appropriate length of time for the transition grant to last. While I think a grant lasting seven to eight years would be justified, Nick and John think this is longer than necessary and I am reluctantly prepared to accept their view that there should be a taper that would reduce it to zero in year 6.

6. We need only indicate the first year quantum and the length of grant in our July announcement. In the Autumn we would announce the detailed profile of the grant and the method

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of distribution between boroughs. The sort of profile we have in mind would be:

	1990-91	1991-92	1992-93	1993-94	1994-95
£m	100	70	50	20	10

The distribution between boroughs would be made on a stable formulaic basis. Current under 18 population would be one option, but I wish to consider the various other possibilities for distribution and the precise profile further with Nick and John. As this grant is to assist transition and allow the boroughs time to achieve savings rather than to support spending of any particular nature it would not be paid as a percentage of any part of actual spending on education.

7. As E(LF)(89)3 indicated, we would need to take a power in the Local Government and Housing Bill to pay the grant. We envisage that this would be done at either Lords Committee or Report Stage through a relatively minor amendment to an existing power in the Education Reform Act.

8. I hope E(LF) will be prepared to endorse the proposal for an inner London transitional grant on this basis. Copies of this minute go to all members of E(LF).

K.S.

KB

3 July 1989

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