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Prime Minister

Caricatures 1: Preserve structure
 2: No financial sanction for 81/82, but threats for 82/83
 3: (Probably) an early oral statement.
 (Some colleagues have changed their views in discussion, and now support this approach.) Do you regard this as an adequate basis for further discussion? at Cabinet next week?

PRIME MINISTER

THE FUTURE OF THE INNER LONDON EDUCATION AUTHORITY

Yes. *

1. At Cabinet on 8 January I was invited in consultation with the Home Secretary, the Chancellor of the Exchequer and the Secretary of State for the Environment to re-examine changes which might be made in the structure and financing of the education service in inner London.

MMK
16/1

2. This problem was considered by a group of Ministers which met twice under the Chancellor's chairmanship. We thought you would find it helpful to see my paper in advance of my circulating it for next Thursday's Cabinet. It reflects the views of the majority of the group and has been cleared with the Chancellor.

3. This minute is copied to the Home Secretary, the Chancellor of the Exchequer, the Secretary of State for the Environment, the Chief Secretary, Mr King, Mr Raison, Mr Baker and Sir Robert Armstrong.

M.C.

* Have following comments on paper

MARK CARLISLE

16 January 1981

① Uncertainty would not be needed if rights to funds had to be exercised within a specific time and lost a specific time.

② - do not accept that responsibility for schools to one authority for H.E. transfer is "bad procedure". It is much better for the schools viewpoint for them to be handled locally. If had accepted the D.E.S. argument we should now have an 'LISA' in every metropolitan county. p.10.

CONFIDENTIAL

③ This conclusion only follows if
the merits of the previous cases
are accepted. Personally I don't
accept them - see previous point.

④ - The Annex does not show (or I can't see
that it does) the basis of the calculation
of £468m for fund-related expenditure.
In that what other authorities would
spend in similar circumstances. Pages
3 & 4 are not clear on this point.

not.



10 DOWNING STREET

From the Private Secretary

19 January 1981

Dear Peter

The Prime Minister has seen the Secretary of State for Education's minute of 16 January, about the future of the Inner London Education Authority. She has made four comments.

Firstly, in respect of paragraph 4, the Prime Minister takes the view that uncertainty would not be created if the right to secede had to be exercised within a specific time and secession had to last a specific time.

Secondly, the Prime Minister has commented on paragraph 5 that she does not accept that it would be "bad for education" to place responsibility for schools with one authority and for higher education with another. She is still firmly of the view that it is much better from the schools' viewpoint for them to be handled locally. She believes that the argument for management by a single authority might well have led to many more authorities on ILEA lines.

Thirdly, the Prime Minister feels that the conclusion in paragraph 8 only follows if the premises of the previous paragraphs are accepted. As your Secretary of State will know, she does not accept them.

Finally, paragraph 10 refers to the annex: the Prime Minister would like to be reminded of the basis of the calculation of £468m for grant related expenditure.

Your Secretary of State will no doubt wish to take account of these comments in finalising the text of the paper for discussion in Cabinet on Thursday.

I am sending copies of this letter to Stephen Boys-Smith (Home Office), Peter Jenkins (HM Treasury), Terry Mathews (Chief Secretary's Office), Peter Cash (Department of the Environment), Jonathan Hudson (Department of Industry), Sarah Kippax (Home Office) and David Wright (Cabinet Office).

Yours ever

Mike Pittman

KKB

Peter Shaw, Esq.,
Department of Education and Science.

CONFIDENTIAL

On 8 January I was invited to re-examine urgently the future of the Inner London Education Authority (ILEA) in consultation with colleagues most concerned (CC(81)1st Min 4). We have met twice under the chairmanship of the Chancellor of the Exchequer; and in this paper I reflect their views as far as possible as well as my own.

2. We have considered three issues - the structure of ILEA, financial controls and the timing of an announcement of our decisions.

STRUCTURE

3. I recommend against total break-up of ILEA. Our supporters on ILEA now share this view. It makes no educational sense to fragment responsibility for higher, further and special education and the careers service, nor, if only responsibility for primary and secondary schools were to be broken up, to separate schools from further education or ordinary schools from special school. Some of the new borough authorities would be very small, and they would find it very hard both to cope with falling pupil numbers and to improve educational standards. Moreover their expenditure on services for which they are already responsible is often even more extravagant than ILEA's expenditure on education.

4. An alternative would be partial break-up. This might take the form of allowing individual boroughs to secede by a given date, and then to operate as individual LEAs or form a statutory group of LEAs, with responsibility either for primary and secondary schools or for all LEA functions. This option has obvious political attractions to some of our supporters who may want to put it to the electorate at the borough elections in 1982. Presumably at least the Conservative boroughs would take advantage of it and so would the City, but the City would not wish to assume education functions. But it would still have some of the

CONFIDENTIAL

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① educational disadvantages of total break-up. It would also create uncertainty which would be bad for education and local government. The effect of secession would mean that there would have to be fundamental changes in the London equalisation arrangements or Westminster and the City would cease to put into ILEA some £180m of rate income which in 1981-82 will support education in the rest of inner London. Under block grant this would have to be paid for by English ratepayers generally. As a result the (rump) ILEA would get a bigger share of block grant.

5. We have considered and rejected various devices which fall short of break-up or secession but which might reduce the power and increase the accountability of ILEA. One possibility (a variant of the arrangements for excepted districts between 1944 and 1974 under which certain county districts exercised limited education functions) would be to allow individual boroughs to assume responsibilities for say schools. Another would give each borough the right to veto any major changes the ILEA wanted to make in its area, and a third, the obverse of this, would give primary responsibility to the boroughs, leaving ILEA a co-ordinating role. But all these solutions would involve divided responsibility, which would be bad for education and would require an extra layer of bureaucracy to handle relations between the boroughs and ILEA. They are as likely to waste money as to save it and would not add to my powers to protect church schools from closure.

6. We could reform the constitution of ILEA as a single authority by having all its members nominated by the boroughs and the City, with a provision for minimum representation of minority parties. Like our supporters on ILEA, we are opposed to this solution which would amongst other things generally leave the majority party on ILEA in a stronger position than it is today.

7. They have now swung behind the option of a directly-elected ILEA in the belief that most voters favour education policies similar to ours. But we cannot be sure that sufficient voters holding those beliefs would turn out at an ILEA election or that they would give expression to them rather than follow party lines. Moreover, a directly elected single service authority levying its own precept or rate would have little or no incentive to economy. As one of my colleagues put it, this would be equivalent to giving the glutton the key to the larder door. We could only avoid this by taking powers to control expenditure directly, a course which we advise against in paragraph 11 below.

② 8. In my view, and that of most of the colleagues whom I have consulted, none of the alternatives to the status quo offers a sufficient prospect of improved educational performance and financial responsibility to justify the controversy and disruption involved in bringing it about.

FINANCIAL CONTROLS

9. There is widespread concern about the reports of ILEA's provisional spending plans for 1981-82. But any control over this expenditure would require legislation. My colleagues and I all judge that it would be impossible to pass legislation in time for it to take effect in 1981-82, when we must rely on block grant to bring home to the ratepayers the consequences of ILEA's actions.

CONFIDENTIAL

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10. As the Annex shows, block grant is working in ILEA much as was intended. It rests on the principle that individual local authorities are free to spend what they choose, but that the taxpayers' contribution is limited, and in some cases reduced or eliminated, as expenditure rises above the threshold. These authorities then have to justify additional rate demands to their electorate. This is the course on which ILEA and some of the inner London boroughs are set. An incidental result is that the grant that ILEA will in the event lose - up to £70m - will be redistributed to the great majority of other authorities.

11. Looking beyond 1981-82, my colleagues and I are all clear that we should again reject, for the reasons given in Annex A to E(80)63, proposals to limit directly the expenditure or rate income of ILEA and other individual authorities. The power could probably not be taken merely "in terrorem", but would have to be exercised. This might well lead to confrontation of the Clay Cross kind with Government commissioners running the authority, the possibility of sending councillors to prison but without recovering the money they wasted. It is by no means certain that, by making an example of a small and untypical group of authorities, we should secure the compliance of the majority with our expenditure plans. The result would be a severe blow to our relations with our supporters in local government.

12. There may however be ways of achieving our financial objectives by indirect means either generally or in relation to ILEA alone. The Secretary of State for the Environment will be circulating shortly a paper on the measures that we might take generally in 1982-83 if our experience of the first year of block grant shows that it is not working as we had hoped in some areas, including ILEA. Two possibilities are differential precepting by population rather than rateable value above a certain threshold of expenditure and a maximum level of precept on non-domestic ratepayers generally. The technical problems associated with these options need further study.

TIMING

13. The Leader of the GLC, with whom I have discussed the situation, broadly endorses these views on structure and finance. He also agrees with me that it would be advantageous for us to announce our conclusions on the central issue of the review as soon as possible. Indeed, I believe that we should make our announcement before 10 February, when ILEA is due to approve its budget and precept for next year.

CONCLUSIONS

14. My conclusions are:-

- i. There are no grounds for thinking that the break-up of ILEA or other less radical changes in its structure would bring any educational advantages;
- ii. There are no further steps we can take to control ILEA's expenditure in 1981-82;

CONFIDENTIAL

iii. We should make it clear now that if block grant fails to deter excessive expenditure next year we shall take appropriate steps, either generally or in relation to ILEA alone, to limit excessive expenditure thereafter;

iv. We should make an early announcement.

15. If my colleagues accept these conclusions, I do not think that a Green Paper would be appropriate. The choice lies between a White Paper and an oral statement in both Houses of Parliament. The announcement needs to be full enough to show why we have laboured so long, and to give our supporters in Parliament, ILEA and elsewhere, some of whom may still favour the options we have rejected, the reasons why we have done so. Timing (paragraph 13 above) points to an oral statement in both Houses, perhaps supplemented by explanatory material circulated in Hansard.

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At present ILEA receives no grant itself, but precepts for all its revenue on the Inner London boroughs, a fact reflected in their grant entitlement.

2. Under the old grant arrangements ILEA would have received £125m in grant in 1981-82 on the assumptions that grant had been paid to each tier, that it was based on the expenditure projections used for block grant and that the grant percentage had been maintained at 61 per cent.

3. By comparison with this, the "base position" described in the Rate Support Grant Report which was approved by the House on 14 January, ILEA's grant in 1981-82 will in fact total £70m if it holds its expenditure to about £600m. This figure is derived from the Government's expenditure targets and inflation assumptions and is close in cash terms to ILEA's likely expenditure in 1980-81, i.e. in real terms it would mean a reduction of 10 per cent between this year and next, compared with a reduction of 4 per cent in the school population.

4. The grant loss of £55m, the equivalent of a 5p rate (the loss limit prescribed by the relevant safety net), would result from expenditure by ILEA well in excess of its grant related expenditure (GRE) of £468m as well as from the reduction in the rate of grant from 61 per cent to 60 per cent and from the general shift of grant away from London. But if, as reported, ILEA plans to spend some £700m in 1981-82 (i.e. an increase of £100m compared with 1980-81), it will lose virtually all the remaining £70m of grant as well. Conversely, for every £ less in expenditure below £700m the rate-payers also gain 60p in grant. This is because authorities like ILEA with very high rateable resources reach a point (through the operation of negative marginal rates of grant) where by applying the deemed rate poundage specified by the Government, they are required to finance all their expenditure from their own resources.

5. Further details are given in the attached table and graph.

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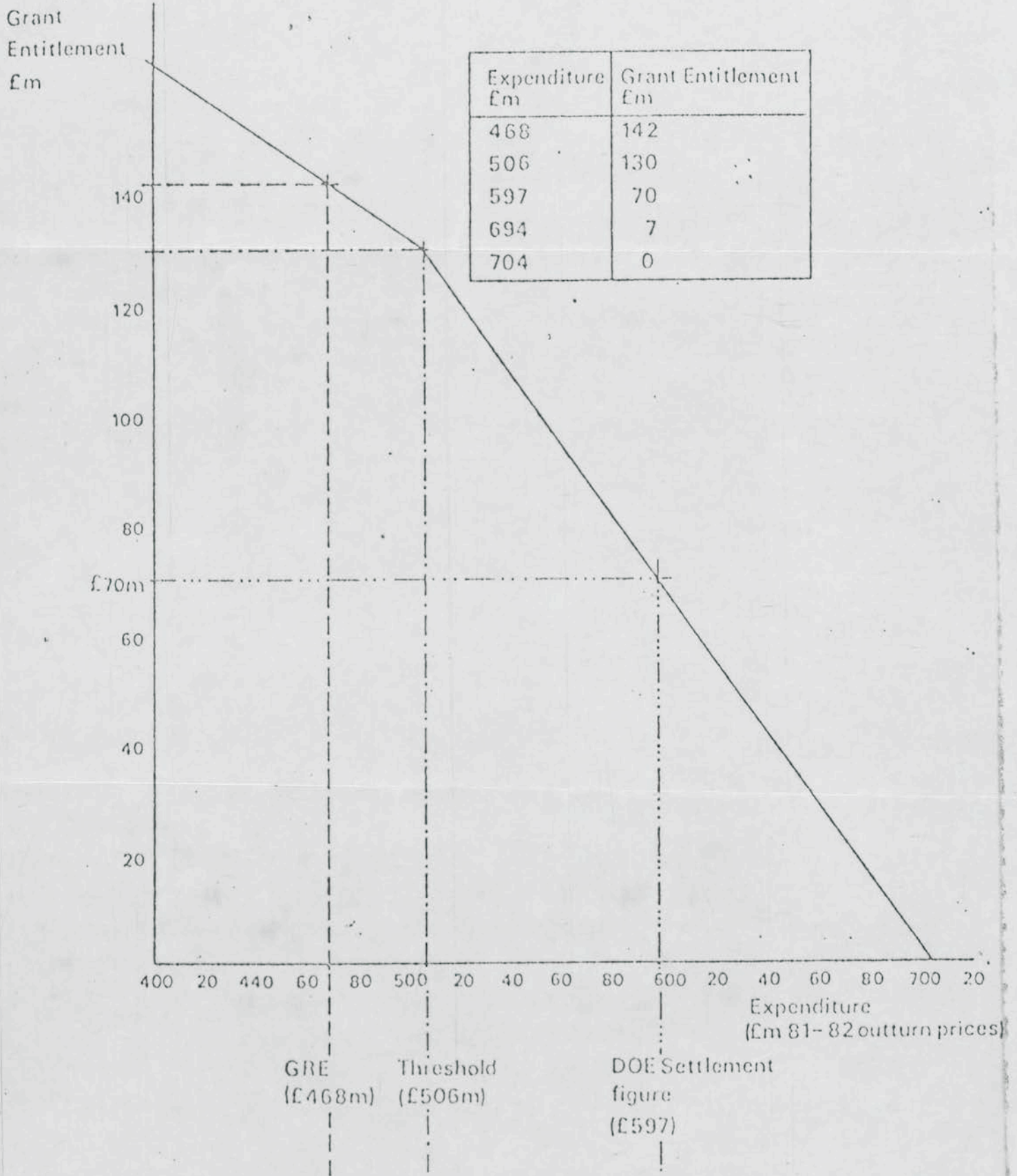
ILEA: RELATIONSHIP BETWEEN EXPENDITURE, PRECEPT AND GRANT ENTITLEMENT IN 1981-82

Expenditure Level	£m	Grant Entitlement £m	Rate-borne Expenditure £m	Equivalent to precept of p	% change in precept from 1980-81*
1) Grant-related expenditure	468	142	326	30	- 30%
2) Threshold	506	130	376	34	- 21%
3) DOE "Settlement figure"	597	70	527	48	+ 12%
4) 10% below ILEA reported planned level	625	52	573	52	+ 21%
5) Maintaining volume permitted by 1980-81 budget (ie 6% below ILEA planned level)	654	33	621	56	+ 30%
6) ILEA reported planned level	694	7	687	62	+ 44%
7) Point at which grant becomes zero	704	0	704	64	+ 49%

* The 1980-81 precept is taken as 43p: this is the precept ILEA would have needed to levy in 1980-81 if RSG had been paid to them direct (as under the new system) since grant paid on their behalf to the Inner London Boroughs is likely to be £118m, the equivalent of an 11p precept.

RSG Settlement 1981-82

ILEA: Grant entitlement at different expenditure levels



116 JAN 1987

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