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The Rt Hon Viscount Whitelaw PC CH MC
Lord President of the Council
68 Whitehall
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10 July 1987

Prime Minister²

Den Miller

How many surplus
leaves foo?

DHS
10/7.

EXPENDITURE LEVEL OF THE ILEA IN 1988-89

We discussed in E(LA) Nicholas Ridley's proposals for determining the expenditure levels of authorities designated for rate limitation. I now propose an expenditure level for the ILEA in 1988-89. The ILEA is automatically designated for precept limitation next year under the provisions of the Local Government Act 1985.

1988-89 will be the fourth year in which the ILEA has been subject to precept limitation. The tough approach which has been taken to setting the authority's expenditure level in successive years has restrained ILEA's spending and caused it to run down reserves. But the authority has still to make any significant reduction in its volume of spending. Its spending in relation to GRE continues to be much higher than that of any other LEA.

I have given careful thought to the basis for determining the EL for 1988-89. I am convinced that we should further toughen our approach. However, it is important that the EL should be capable of achievement given current spending levels. The authority's budget for this year as returned to the Department of the Environment is £1040m. This cannot be met from the revenues available to the authority. The authority is delaying submission of a revised return. However, on the basis of information supplied to the Department by ILEA officers, I believe that a reasonable estimate of what the authority's spending will be this year if it continues present policies is £1015m. There is still time for it to change course and spend somewhat less.

Nicholas Ridley's proposal for rate-limited education authorities in 1988-89 is for a cash freeze plus an allowance for the

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full-year costs of the 1987 school teachers' salary structure package. Applying that proposal to ILEA would yield an EL of £960m. That implies a real terms reduction in spending of 10.5% if in the event the Authority spends around £1015m. No LEA has ever achieved so large a reduction in expenditure from one year to the next. However, no other LEA spends anything like as high as ILEA and it remains open to the authority to ease its path by embarking on a programme of reductions now. I therefore propose to determine the EL at this level.

I expect that the ILEA will apply for re-determination at a higher level. I will need at that stage to consider all the information presented to me. The Authority may call into question the practicability of the scale of reduction which I envisage. They may draw attention to uncertainties in the costs which they will face next year: for example I have not at this stage made any allowance for the cost of a move out of County Hall. But I think we shall be in a better position to deliver our objectives of reducing ILEA's spending and containing the burden it places on ratepayers if at the outset I determine a very tight EL.

I invite colleagues on E(LA) to agree that I should determine the Expenditure Level for the ILEA in 1988-89 at £960m. I should be grateful to receive any comments on that proposal by Thursday 16 July.

I am copying this letter to members of E(LA) and E(LF) and to Sir Robert Armstrong.

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The Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
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17 July 1987

Dear Lord President,

NBRM

EXPENDITURE LEVEL OF THE ILEA IN 1988/89

Kenneth Baker has proposed in his letter to you of 10 July that the ILEA's expenditure level (EL) for the purposes of precept limitation in 1988/89 should be determined at £960 million.

Colleagues will be very much aware of the problem of ILEA's massive overspending - not least in the context of introducing the community charge, where it is proving a major obstacle to a satisfactory outcome in the inner London area. This must make it a high priority for us to keep ILEA's precept under stringent control in the run-up and transition to the new system.

I appreciate that the figure which Kenneth is proposing for 1988/89 is consistent with the treatment that I am using for rate-limited education authorities, and that it represents a substantial reduction on ILEA's likely level of actual spending this year. Nevertheless, the importance of increasing the pressure on ILEA and the fact that it is so exceptional in the extent of its overspending - 80% over GRE, compared with 24% for the next highest education authority - brings me strongly to the conclusion that its EL for 1988/89 should be set substantially lower than £960m.

The level of spending that we effectively allowed for ILEA in 1987/88, by virtue of the Local Government Finance Act earlier this year, was £943m. I consider that the maximum ILEA should be allowed in 1988/89 is a freeze on that amount. However bearing in mind that the starting point for 1987/88 was an EL of £915m there is a strong case - for the reasons I have given above - for squeezing the EL for 1988/89 back down towards that figure.

Since ILEA will have the opportunity to apply for a redetermination of the EL later this year, there is clearly every advantage now in starting with a very tough base figure. I hope also that Kenneth will, as I intend, keep his options open so far as imposing conditions on any redetermination are concerned.

I am copying this letter to members of E(LA) and E(LF), and to Sir Robert Armstrong.

Yours sincerely,

N Ridley

NICHOLAS RIDLEY
(Approved in draft by the Secretary of State and signed in his absence.)

