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PRIME MINISTER

MEETING OF E(EP): 12 MAY

The meeting takes place before Cabinet.

You saw Mr Baker's paper (Flag A) on ILEA over the weekend. I now also enclose a Cabinet Office brief (Flag B) and some comments by Brian Griffiths (Flag C).

I suggest you take the items in the order they are discussed in Mr Baker's paper:

- (i) The costs and savings from abolition of ILEA. The Cabinet Office brief raises a number of points on this (paragraphs 3-6).
- (ii) Severance scheme for teachers. Brian Griffiths's note includes a number of counter-arguments to those presented by Mr Baker.
- (iii) Amendments to the Bill in the Lords.

Paul

PAUL GRAY

11 May 1988

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PRIME MINISTER

ABOLITION OF ILEA: COSTS, SAVINGS AND HANDLING IN THE LORDS

E(EP)(88)9

DECISIONS

1. Three main points arise on Mr Baker's paper.

i. It meets an earlier remit to set out the costs and savings from abolition of ILEA. No decision is needed as such, but you will wish to check whether the Treasury, who asked for this information, are content.

ii. Mr Baker recommends that no initiative should be taken now to finance a scheme of selective redundancies for teachers in Inner London, although he proposes to continue specific grants until 1993 to help boroughs with severance costs if in the event it seems necessary. You may want to explore this.

iii. He wishes to provide some assurance about the future of four of ILEA's specialist activities, in time for an announcement to be made in the Lords Committee Stage on 17 May. Giving some such assurance might not prove contentious although there could be some argument about the particular methods proposed by Mr Baker. A decision is needed on whether to agree to what he proposes.

BACKGROUND

2. Following the decision in February to abolish ILEA (E(EP)(88)1st Meeting), the Sub-Committee considered in March the financial consequences of abolition (E(EP)(88) 2nd Meeting). At the request of the Paymaster General, Treasury, Mr Baker was asked to prepare an analysis of the costs and savings which would arise



from abolition in the years after 1 April 1990. You also felt that the case for replicating the severance scheme for Grant Maintained school teachers should be considered further. Mr Baker was therefore asked to recommend arrangements for the handling of ILEA teachers after abolition, which covered in particular how best to ensure that unsuitable teachers did not continue in employment.

ISSUES

Costs and Savings arising from Abolition

3. Mr Baker suggests that savings in ILEA's current level of expenditure ought to be obtainable through:

i. Precept control of ILEA's expenditure in 1989/90. ILEA claims to have already put in hand a £100m savings package for 1988-89. But its budget is still £1013m for this year compared with £1015m in 1987-88. The note by Mr Baker's officials suggests (paragraph 4) that the aim for 1989-90 should be for a further reduction in overspend against GRE, whilst not prejudicing the continued operation of the Inner London education service or putting at risk the viability of the schools and colleges to be transferred to the boroughs. You may wish to ask Mr Baker whether he is content that everything is being done to reduce expenditure by 31 March 1990, and the Paymaster General whether he is content (see paragraph 5 below).

ii. Reductions in the boroughs' direct expenditure on education after 1 April 1990. There may be scope for immediate action on adult education fees, discretionary awards policies, and the level of support services. Mr Baker reports (paragraph 6 of annex) that the closure process for individual institutions will have to start after abolition since it will be difficult for ILEA to initiate proposals before they are abolished. It will therefore be some time before boroughs are able to achieve significant rationalisation. You may wish to ask Mr Baker whether there is any way of speeding this up.



iii. Reductions in administrative costs on abolition. As ILEA's administrative services, which are the most expensive in the country, are not being transferred to the boroughs, it ought to be possible to produce some savings from 1990 onwards (administrative costs comprise around 10 per cent of ILEA's current budget). These savings will however be reduced if some boroughs provide administrative support on a lavish scale. You may wish to ask Mr Baker whether he could tackle the latter problem through the powers he is taking (eg to approve the boroughs' plans for education).

4. Mr Baker notes that additional costs will arise from abolition, consisting of the £13m of specific grants to help boroughs prepare for transfer, the costs of redundancy and detriment payments to ILEA employees (up to £50m, but to be financed by unused receipts of the London Residuary Body, sales of ILEA's assets and, if necessary, from a proportion of the receipts from the sale of County Hall), and small additional expenditure on DES administration. These costs are not expected to be contentious between Ministers.

5. The Paymaster General may press for a firm commitment to a further real reduction in the ILEA precept for 1989-90, and for more specific indications on savings in the years after 1990. Mr Baker will wish to retain flexibility on ILEA's precept for 1989-90 until the E(LA) discussions in June and July. He will also be cautious about savings after 1990: although reductions are likely in Wandsworth, Westminster and Kensington and Chelsea, the position is much less certain in the other boroughs. Depending on the discussion, you may wish to refer the decision as to the precept in 1989-90 to E(LA). You might also ask Mr Baker to set out a positive statement of the costs and savings of abolition, for public use by Ministers when required.

6. Mr Ridley is expected to mention that his department has been receiving requests from the inner London boroughs for preliminary guidance on their anticipated expenditure ceiling for education in



1990-91. He may propose that a general form of words - for example such as a cash standstill or a 10% reduction on provision in 1989-90 - be announced as a planning figure in July when the 1989-90 rate level is published. You may wish to ask Mr Ridley to explore this with the Paymaster General and Mr Baker.

Severance Scheme for Teachers

7. Mr Baker may give four reasons for suggesting that a severance scheme, along the lines of the scheme for Grant Maintained schools, should not be pursued for ILEA:

- i. there is unlikely to be a marked excess of teachers in Inner London in 1990, and recruitment is already difficult;
- ii. announcement of a severance scheme could worsen current retention difficulties, and thus weaken the position of the schools to be handed over to the boroughs in 1990;
- iii. an amendment to the Bill specifically authorising a scheme would be difficult to get through the Lords, and would add to the problems of getting the remaining ILEA provisions through unscathed; and
- iv. the boroughs, including the Conservative ones, have not asked for such a scheme, and it is not certain that any of them would choose to operate it. The boroughs have much greater financial resources than individual schools opting out, and would therefore be able to fund a limited number of redundancies anyway if they chose to make them.

8. Mr Baker is likely to stress, in particular, the difficulties of getting the Education Reform Bill through the Lords. He suggests that the option of a severance scheme would be kept open if his proposal to extend the specific grant-making power for 3 years is accepted; but the Paymaster General and Mr Ridley may oppose this for wider reasons (see below). Although it might be possible to create alternative means of dismissing unsuitable



teachers, all such schemes are still likely to depend on the willingness of local boroughs to operate them. You will therefore wish to decide whether to press Mr Baker further on the severance scheme proposal. You may wish to ask the Lord Privy Seal whether he endorses Mr Baker's judgement about the difficulty of getting a specific amendment for this purpose through the Lords.

Package for Lords Committee

9. Mr Baker's principal concern is the Bishop of London's spoiling amendment. Education Ministers, Whips and the three Conservative boroughs are already involved in a considerable lobbying exercise of Conservative and crossbench peers before next Tuesday. Mr Baker believes that an announcement of assured future funding for four specialist activities currently financed by ILEA - the Horniman and Geffrye Museums, Adult Education at three prestigious colleges, voluntary organisations and provision for the musically gifted - would be very useful in the Lords.

10. Expenditure on each of these activities is relatively minor. Experience of the GLC's abolition, however, suggests that the pressure to deal with exceptional cases is likely to grow as abolition nears. Two concerns about Mr Baker's package are expected to be raised in discussion:

i. the proposal to extend Mr Baker's powers to offer specific grants to cover the transition for 3 further years, to 1992/93. Treasury ministers agreed reluctantly to Mr Baker having specific grant powers for the next two years, to ease the preparations for abolition. But now Mr Baker wants to extend these powers for 3 more years, initially to safeguard the provision for musically gifted children. The Paymaster General and Mr Ridley will view this as the thin end of the wedge, which would create a most unwelcome precedent. They would much prefer an arrangement which avoids Exchequer funding, but involves a call on Inner London community charge payers or the London Residuary Body. You may wish to ask



Mr Baker to explore urgently ways of safeguarding music provision which do not involve specific grants from central Government;

ii. the package requires an announcement that central Government will be the funder of last resort from 1993 onwards for each of the four activities. Again this could be an undesirable precedent, and Ministers may wish to explore the option of additional contributions from London community charge payers instead. Any such exploration will have to be completed quickly if an announcement is to be made by next Tuesday.

Subject to resolution of these points, you may wish to approve this package for use in the Lords.

HANDLING

11. You will wish to ask the Secretary of State for Education and Science to introduce his paper. The Paymaster General and the Secretary of State for the Environment will wish to comment. Other Ministers may wish to contribute to the discussion.

RTJW.

R T J WILSON
Cabinet Office
11 May 1988

ABOLITION OF ILEA

The paper by the Secretary of State deals with two major issues:

- i. arrangements for transferred ILEA teachers
- ii. amendments to the Education Bill in the Lords.

i. Arrangements for transferred ILEA teachers

ILEA has a large number of really militant teachers who are members of the Inner London Teachers Association (ILTA). While some boroughs may be enthusiastic in wishing to employ these people, there are certainly others who are not, and more to the point there are many head teachers who are not. The problem at present however is that such individuals are not known personally to the leaders of boroughs such as Wandsworth, Westminster and Kensington. In addition, there are many teachers who disapprove of Government policy and who may be tempted to make the new system unworkable.

We would make it easier for boroughs to set up first class LEAs if they were given similar rights to those proposed for grant-maintained schools. As the opposition to our plans for ILEA has focussed on the ability of the boroughs to set up viable LEAs, the ability of independent schools to choose staff must be an important asset.

The DES appendix raises three objections to this scheme:

a. ILEA teachers would begin to look for jobs elsewhere.

The fact that ILEA must cut its budget clearly puts jobs in jeopardy. But there is no reason why good teachers should feel in any way threatened by this proposal and hence wish to move. If bad teachers or politically motivated teachers felt threatened, this could be a very salutary effect.

It is not at all clear that the introduction of this particular amendment will have any serious effect on teacher supply.

b. Ample procedures exist for dismissing staff.

Ample procedures exist already so it is argued that from April 1992 these will be boosted because the initiative on dismissals will rest with the Government.

This, however, ignores the inertia which has developed within the education service over dismissing teachers. Dismissal of staff who are judged incompetent and unsuitable is exceedingly difficult.

c. Amendments will jeopardise passage through the Lords.

Quite the reverse. If the amendments are explained as strengthening the ability of heads and Government to build up and run first class schools - a major concern of their Lordships - then it should allay their fears, not increase them.

The DES arguments therefore lack substance.

The Problem of Moderate Teachers

The real problem is the position of moderate teachers. The most sensitive issue among this group is the future of their jobs, if ILEA is abolished. So far they have gone along with our policy, primarily because they have felt secure with our proposals on the transfer of jobs.

Conclusion

A powerful case exists for giving the new London LEAs the same powers as GM schools. If we do so however the Government will appear to have gone back on its word and we risk alienating moderate teachers.

My personal conclusion is that this change should have been introduced earlier. To do it now would risk alienating moderate opinion unless the Secretary of State is prepared to outline in some detail the criteria of unsuitability.

ii. Amendments to the Education Bill in the Lords

The Secretary of State outlines four areas in which changes could be introduced which might sway doubters:

- the Horniman and Geffrye Museum
- Morley College
- Voluntary organisations
- Music provision

All of these are perfectly reasonable proposals and one which the Secretary of State would almost certainly be forced to tackle at some future date. These may sway some doubters. However the proposals are not carefully costed.

Recommendation

Accept the proposals subject to their total cost being set out explicitly and being reasonable.

Brian Griffiths

BRIAN GRIFFITHS