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Note

Told Chris de Gandy  
(DAS) that PM is content.

Freeb  
w/b

PRIME MINISTER

ABOLITION OF ILEA: FINANCING OF THE LONDON RESIDUARY BODY

E(EP) agreed last month that funding for inner London boroughs to dismiss unsuitable teachers should preferably come from the London Residuary Body.

Kenneth Baker's letter of 20 June below sets out his proposals for this. He envisages that the funding should come from the receipts from County Hall in the same way as already agreed for redundancy and detriment compensation. The proportion of County Hall receipts available for all these purposes would continue to be limited to the 40 per cent figure already agreed. The Chief Secretary and Mr. Ridley (letters of 22 June) are content with this approach. Brian Griffiths and I also agree this approach is in line with what E(EP) was after.

Content for Kenneth Baker to proceed as proposed?

Freeb.

Yes

Freeb

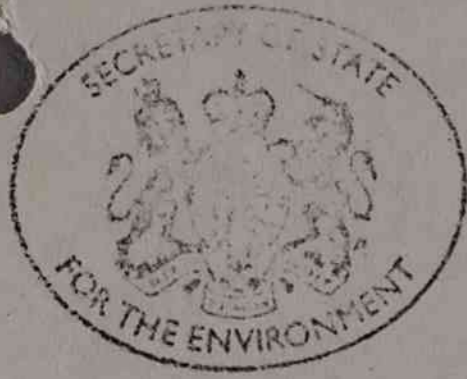
PAUL GRAY

23 June 1988

EL3CWJ

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CY/SG



2 MARSHAM STREET

LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

The Rt Hon Kenneth Baker MP  
 Secretary of State  
 Department of Education and Science  
 Elizabeth House  
 York Road  
 LONDON  
 SE1 7PH

22 June 1988

*Dear Kenneth*

ABOLITION OF ILEA: FINANCING OF THE LONDON RESIDUARY BODY

Thank you for your <sup>at trap</sup> letter of 20 June.

As you note, we have already agreed that up to 40% of the receipts from the sale of County Hall should be available to finance, if necessary, redundancy and detriment compensation arising as a consequence of the abolition of ILEA in 1990. In view of what you say, I am further content that the proposed scheme to find the severance of unsuitable teachers dismissed by successor education authorities on transfer from ILEA should, if necessary, be financed from within that same proportion of the County Hall receipt. I accept, of course, that it is difficult to predict the amount of balances LRB will inherit from ILEA. But I am sure we both recognise that, out of fairness to outer London, those balances and the receipts from what I hope will be a vigorous shakeout of surplus ILEA property must be the first source of funds for the costs you have identified.

I recognise that the Parliamentary timetable is tight. However, it is important that my officials are given the same opportunity as yours to consider and comment on the amendment which Counsel is still to draft in relation to Section 77 of the Local Government Act 1985. This does, of course, affect my powers to specify the purposes for which ex-GLC capital money should be used. I should be grateful if you could ensure that this happens.

I note the point you raise about allowing the LRB to borrow short-term if the County Hall receipt was not immediately available. In fact, the same principle would arise if receipts from ex-ILEA property were not yet available. We do not normally allow local authorities to borrow to finance staff compensation costs but there are precedents in the 1985 re-organisation to allow borrowing to roll over costs until receipts were available the following financial year. This issue is as much for John Major as me. Let us look at it if the need seems likely.

Copies of this letter go to the Prime Minister, other members of E(EP), Peter Brooke and Sir Robin Butler.

*Yours  
 Nicholas Ridley*

NICHOLAS RIDLEY



EDUCATION: JLEA  
AS



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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

NB 2 papers.

22 June 1988

Dear Secretary of State,

**ABOLITION OF ILEA: FINANCING OF THE LONDON RESIDUARY BODY**

Thank you for copying to me your letter of 20 June to Nicholas Ridley. *afflat*

I welcome your acceptance that there should be no central government support towards the costs of dismissal by inner London boroughs of unsuitable teachers transferred to them from ILEA. I recognise the presentational advantages of your proposal to extend the existing agreement on the use of County Hall receipts, if necessary, to finance redundancy and detriment costs directly as a result of abolition to cover the costs of those dismissals. I am content to agree to it subject to the same conditions, effectively to preserve the interests of the outer London boroughs, as apply under the existing agreement. In particular, I am sure you are right to propose adhering to the original 40 per cent limit on the use of County Hall receipts for these purposes. Any costs in excess of that figure will therefore need to be met via the LRB's levy.

I note what you say about the contingent need for the LRB to borrow in anticipation of County Hall receipts. I hope that that can be avoided, and I should need to be satisfied that it was absolutely essential before I could agree to it. But you are obviously right that we need not decide that now and I am prepared to return to it on its merits nearer the time.

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

Yours sincerely,

PP JOHN MAJOR

(Approved by the Chief Secretary +

EDUC [redacted] : Future of ILOA PTS.

22/11  
1988



ELIZABETH HOUSE  
YORK ROAD  
LONDON SE1 7PH  
01-934 9000

CONFIDENTIAL

The Rt Hon Nicholas Ridley MP  
Secretary of State for the Environment  
2 Marsham Street  
London  
SW1

20 June 1988

*Jim Mike,*

ABOLITION OF ILEA: FINANCING OF THE LONDON RESIDUARY BODY

We have agreed that up to 40% of the receipts from the sale of County Hall should be available to finance, if necessary, the redundancy and detriment compensation arising as a consequence of the abolition of ILEA in 1990. Your officials kindly provided draft instructions to Counsel on this point.

X Since then, the minutes of E(EP) on <sup>attached</sup> 12 May record our agreement that funding should be made available to allow the inner London boroughs to dismiss unsuitable teachers received on transfer from ILEA. (Technically, of course, we are concerned with severance.) We agreed that no such scheme should be announced at this stage, in order to avoid controversy in the House of Lords; my officials are considering what form such a scheme might take, but we do not need to reach a decision on that urgently. What we must do is to ensure that we have available the necessary means to fund the scheme.

E(EP) agreed that it would not be appropriate to fund these severances through the payment of a specific grant from central Government, and accordingly decided against extending beyond 1989-90 the power to pay specific grant to the inner London boroughs. That, I think, rules out the possibility of central support for the costs of such a scheme.

E(EP) therefore suggested that it would be preferable for the LRB to be given powers to finance severances. It could of course do this through the levy on the boroughs, without any specific amendment to the Education Reform Bill for this purpose. I believe that this would be politically damaging. On the one hand

it would be claimed that this was a direct and visible cost being laid at the door of the residents of inner London as an immediate consequence of our legislation for the abolition of ILEA. On the other hand, any such provision would almost certainly be used much more extensively by the Conservative boroughs than by the Labour boroughs, and a uniform levy would be criticised as an unfair subsidy of some of the wealthier parts of London at the expense of poorer areas.

I therefore believe that the most satisfactory solution would be for such a scheme to be financed through the capital assets received by the London Residuary Body. I think that this was in any case E(EP)'s preferred option. Of course at this stage we do not know what level of balances will be inherited from ILEA, nor the value of the surplus property which will be transferred to the LRB and the rate at which it will be possible to dispose of that property. Indeed, we have already recognised that it is likely that the foreseeable redundancy and detriment costs could not be met without specific provision for access to County Hall receipts. Given that those compensation costs must be the first call on the assets inherited by the LRB, I believe that, if we are to have the sort of severance scheme under consideration, it too may have to be financed from County Hall receipts.

That means that the provision enabling us to use County Hall receipts needs to be drafted in general terms, as E(EP) recognised, so as to enable us to finance a severance scheme while avoiding controversy in the Lords.

My officials have kept yours informed of the changes which we believe necessary in order to encompass this objective. Briefly, we seek to provide that proceeds of sale which would otherwise fall to be distributed under Section 77(4) of the Local Government Act 1985 should be available to meet costs which the sale of ILEA's own assets might not cover. This would be done by enabling the Secretary of State to make an order (by negative resolution statutory instrument) providing for such part of capital money as may be specified in the order to be applied for such purposes as are also specified. We have of course agreed that the proportion of County Hall receipts which might be treated in this way should not exceed 40%, and I believe that we should adhere to that figure, even though it may have to include the severance scheme as well as the redundancy and detriment compensation which we had already foreseen.

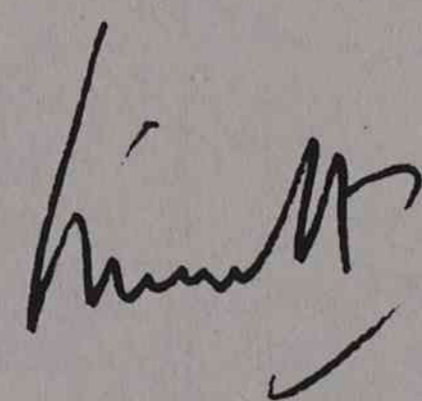
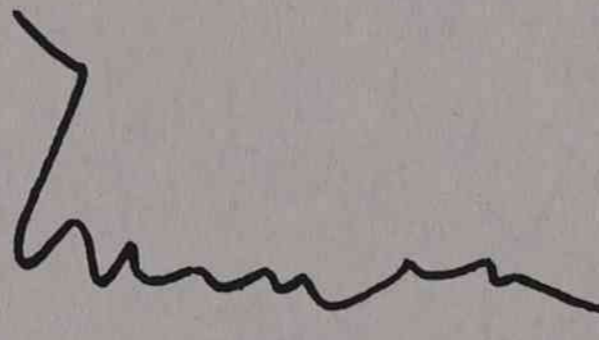
I had hoped to be able to clear with you the amendment itself, but Counsel has not yet completed it, and as time is now short before it will have to be tabled - certainly no later than this Friday - I should be grateful for your confirmation, and that of colleagues, that you are content with the approach I have described. If any comments are to be reflected in the amendment, they will need to be provided by lunchtime on Wednesday 22 June.

There is a further point which I should like to raise at this stage. The large one-off costs of abolition will mostly arise in 1990-91, when perhaps £50 million will be required. I doubt that ILEA's closing balances and any early income from the sale of ILEA surplus assets will contribute much more than half of that, and perhaps significantly less. We have agreed that the gap should be filled from County Hall receipts. If however these were not available as early as that, the impact on the LRB's levy on the boroughs could be very noticeable.

I know that you are reasonably confident that there will be County Hall receipts by 1990, and that this problem will not therefore arise. If in the event it does, however, I would hope that you would be prepared to consider permitting the LRB to borrow in anticipation of County Hall receipts in order to meet clearly defined expenses which should properly fall to be met in that way.

I am not asking for a decision in principle at this stage; the issue is however sufficiently important for it to be flagged as one needing sympathetic treatment should the contingency arise.

I am copying this letter to the Prime Minister, to Peter Brooke, and to the other members of E(EP).





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