



cc W. Hyde
Cov. Office

1.
Education.

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

7 January 1981

Dear Rike

You asked me for a note about Robin Pauley's interview on the Today Programme yesterday about block grant. Here it is.

Since the future of the ILEA is on the Cabinet agenda tomorrow morning, I am copying this to the Private Secretaries to all Cabinet Ministers and to the Private Secretary to Sir Robert Armstrong.

Tom [unclear]
Jeff Jacobs

J JACOBS
Private Secretary

Prime Minister Hasseng
MA/sj

I am putting this in the action folder so that you see it before Cabinet - but

Mike Pattison Esq
No 10

for information only. MA

ILEA AND BLOCK GRANT

1. Robin Panley of the Financial Times said on the Radio 4 'Today' programme on 6 January that under the new block grant system the Inner London Education Authority would get less and less grant the more it spent until it reached a stage where it got no grant at all. He argued that for a relatively small increase in expenditure ILEA could get to this position and thereafter be immune from any further Government sanction through the grant system to restrain its expenditure.
2. It is true that for a minority of authorities with very high rateable resources (of which ILEA is one) the operation of the grant system means that the more they spend the less grant they get until they reach a point where they get no grant at all. This is because block grant is designed to enable authorities to finance similar levels of expenditure for similar rates in the pound. Authorities with very high rateable resources reach a point where by applying the deemed rate poundage specified by Government, they are able to finance all their expenditure from their own resources and thus receive no further grant.
3. However, to reach a stage of nil grant ILEA has to spend very substantially in excess of the Government's guidelines. If ILEA reduces its expenditure in line with the Government's target reduction for local authority expenditure of 3.1% and applies the pay and price assumptions in the RSG cash limit it will spend £598m in 1981/82, at which level it would receive £70m of block grant. This will enable it to reduce its precept by 6.5p - 12% - because it is receiving grant due to it for the first time; hitherto ILEA's grant was paid to the boroughs. In fact ILEA are saying (see attached press notice) that they plan to spend £694m - 16% more than if they had complied with the Government's targets on the volume of expenditure and on pay and prices, for which they would receive £7m of grant. This would, however, require an increase in the ILEA precept of 7.8p - 14.5% rather than a reduction. [To receive no grant at all ILEA would need to spend £704m - 18% above the level implied by compliance with Government guidelines.]

4. ILEA's press notice says that a budget of £694m is necessary to "maintain existing standards"; but it would appear that there is significant provision for growth in this figure. It is true that once it has exhausted all its grant the Government has no further sanction; but in getting to that position it will have suffered a severe penalty (ie the removal of all its grant) and will have to answer to ratepayers for a substantial increase in its precept.

5. Pauley suggested that a number of other London authorities could follow ILEA down this course. In fact, only Westminster, the City of London and Camden are likely to be in the nil grant position; although a number of inner London authorities will get less grant the more they spend, they are most unlikely to achieve expenditure levels so high as to exhaust all their grant. Pauley also suggested that neither Ministers nor officials had anticipated the possibility of authorities receiving no grant; this is quite untrue. Indeed, the process by which such a situation can arise was the subject of lengthy argument with local government last year.

Wycombe

ileaNews

Inner London Education Authority

The County Hall, London, SE1 7PB Telephone 01-633 7667, 6177 and 6715
24 hour service for urgent calls 01-633 7667

80/79

grant 1

31 December 1980

ILEA'S GOVERNMENT GRANT COULD BE NIL

Detailed work on the effect on London of the Government's block grant settlement for 1981-82 reveals that, unlike the bulk of authorities outside London, the Inner London Education Authority's grant could be reduced to nil.

The Authority estimates that, at 1981-82 out-turn prices, to maintain existing standards its budget next year would need to be £694 million. This figure assumes that the Authority makes all the savings related to falling school rolls and takes in the full effect of savings arising from the 1980-81 budget. It also assumes the level of pay settlement (6%) and inflation on prices (11%) allowed for by the Government.

With an expenditure of £694 million the Authority, under the present settlement, would receive a grant of only £7 million. This is a reduction of £118 million on the £125 million grant which would have applied in 1981-82 under the previous rate support grant arrangements. As a result, virtually the whole burden of maintaining the present level of educational provision would fall on the inner London ratepayers.

A report to the ILEA's finance sub-committee says: "The settlement provides no effective safety net to cushion ratepayers against sharp changes in grant levels and distribution".

Rate support for ILEA in 1981-82 has been determined by two calculations:

- (1) the Government's assessment of the Authority's 'grant related expenditure' (GRE), defined as the Government's estimate of the cost of providing for a common or typical standard of service in authorities with common functions, and
- (2) the Government's calculation of the Authority's 'assumed' budget level, based on projections of total expenditure which assume that local authorities will spend in 1981-82 at the same relative levels as in the current year.

Grant related expenditure (GRE) for the ILEA has been determined as £468 million, which the report describes as "inequitable". For every pound spent above that level, grant is lost.

The report says: "The GRE level of expenditure could not be achieved in 1981-82 even if all recruitment to the Authority ceased and staff numbers were reduced so far as could be achieved while yielding savings during the financial year and even if the only other expenditure incurred was that on rent, rates, heating, lighting and debt charges. There would, for example, be no allowance for books or teaching materials to schools or colleges, no maintenance of premises and no meals service".

On the Government's calculation of the Authority's 'assumed' budget level, the report says: "This figure has not been published in the settlement but has been calculated by us as £598 million, which we consider to be unreasonably low. It would produce grant of £70 million, a loss of £55 million from the £125 million under the old system. This £55 million is the equivalent of a 5p rate which the settlement misleadingly describes as a 'safety net'".

"The Authority, in common with most London authorities, can continue to lose grant indefinitely beyond this point. Unlike the bulk of authorities outside London the Authority's grant could be reduced to nil".

For the Authority to obtain grant of £70 million, payable at the Government's assumed level of expenditure of £598 million, its budget would need to be cut by some £90 million from the existing level of service. A reduction of this order could only be made in areas which would yield financial saving during 1981-82.

Purely for the purposes of illustration, this would require such measures as -

- (i) Leaving unfilled all posts - teaching, non-teaching and administrative - which fall vacant throughout the financial year, no matter how crucial those posts are to the curriculum.
- (ii) Removing 75% of allowances to schools, colleges and other institutions. This would mean 75% less expenditure on books and other teaching materials and part-time teaching and non-teaching staff currently financed from the alternative use of resources scheme (the Authority's cash allocation to schools).
- (iii) Cutting all expenditure on maintaining premises and not replacing any furniture or equipment.
- (iv) Reducing expenditure on other items by, for example, making no new discretionary awards or educational maintenance grants and sharply increasing school meal prices.

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