PRIME MINISTER

cc. Mr. Rickett

I believe Mr. Heseltine may have had a word with you today about his negotations with Leon Brittan on withholding of grant from local authorities.

Mr. Brittan has argued that a decision to go for a reduced figure requires collective discussion, probably in E. Mr. Heseltine argues that a decision must be reached this week, if it is not to make the situation worse for some Conservative authorities. Some of the authorities are obliged to give notice of any supplementary rate by 9 September: these include some Conservative authorities who will actually be let off the hook under Mr. Heseltine's proposals. If decisions are not announced this week, they will be obliged to give notice of a supplementary rate.

Those who have been participating in the Treasury/DOI discussions are no longer available this evening. As I understand it, the Chief Secretary has accepted the idea of reducing the withholding from £450 million to £360 million - as suggested at the bottom of the first page of Mr. Heseltine's letter below: but Mr. Brittan wants to stick to that £360 million figure, and is not prepared to accept the further full exemption suggested for 48 other authorities at a cost of at least £50 million more (the fifth paragraph on Mr. Heseltine's page 2) unless this figure is recouped elsewhere.

I am sorry that the position is not crystal clear. The total value of the exemptions which Mr. Heseltine now wants to secure may well bring the hold-back down to about £260 million. His office will be letting us have the draft circular first thing tomorrow. It would be helpful to know overnight which of the following possible courses of action you want to adopt:

(i) To give a ruling on the basis of Mr. Heseltine's attached letter and your conversation with him today;

/ (ii)

(ii) To have Mr. Heseltine and Mr. Brittan in tomorrow - possibly one side of your 1630 meeting with Mr. Heseltine about the Chief Executive post at PSA;

(iii) To accept Mr. Brittan's request that the matter should be deferred for collective discussion, thus accepting the additional difficulties this will cause for some of the shire counties.

1 September 1981