

PRIME MINISTER

The Chancellor would like authority for him to speak to Mr. Ridley and for Treasury officials to talk to two or three key DOE officials about his proposal for a new planning total which excludes local authority spending but includes Central Government grants to local authorities. Can you agree, provided it is done in the strictest confidence?

(Incidentally, I shared many of your reservations about this proposal but 20 minutes conversation with Andrew Turnbull, who with Robin Butler is one of the authors of the concept, has made me see the proposal in a more favourable light. Andrew's main arguments why the proposal does not represent a relaxation in public expenditure control are set out in the note attached to the Treasury letter.)

N.C.W.

NIGEL WICKS

5 August 1987

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CONFIDENTIAL



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Treasury Chambers, Parliament Street, SW1P 3AG
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Prime Minister

David Norgrove Esq
10 Downing Street
LONDON SW1

5 August 1987

Dear David,

A NEW PLANNING TOTAL

In your letter of 31 July you recorded that the Prime Minister was concerned that the proposals for a new planning total might ease central government pressures on local authority spending, or might give that impression. The Chancellor is conscious of this danger. But he sees the proposals, not as relaxing pressure on local authorities, but as complementing and reinforcing the increased pressures which the reforms of local government finance are intended to bring. The Prime Minister may find it helpful to see the attached note which expands the arguments.

The Chancellor welcomes the opportunity to discuss the proposals with the Prime Minister in September. Your letter said that, in the meantime, knowledge of it should not go outside the Treasury. The Chancellor would, however, find it helpful if, before the meeting, he was able to have a reaction from Mr Ridley. I would therefore be grateful if you could establish whether the Prime Minister would be content for the proposals to be shown to Mr Ridley on a strictly confidential basis, with Treasury officials to talk on a similar basis to two or three key officials in DOE.

*Yours
Alec*

A C S ALLAN
Principal Private Secretary

NEW PLANNING TOTAL: ARE WE QUITTING ON CONTROLLING LOCAL AUTHORITY EXPENDITURE, OR APPEARING TO DO SO?

Points to make

(i) Not quitting on local government expenditure. Government policy expressed in terms of general government expenditure, which includes local authority expenditure. So we care about limiting as much as ever.

(ii) Present arrangements not effective. Grant is our most important instrument in restraining local authorities. At present grant as such is not included in the planning total. So increasing it appears painless. Argument is conducted in terms of financing a set proportion of whatever local authorities decide to spend. Cedes initiative to them.

(iii) Reform of local government finance will provide greater central government influence over local authorities' income from non-domestic rates and will increase pressure of accountability on community charge. New planning total would complement this by putting the spotlight on grant. Thus pressures on all three sources of local authority current income would be intensified.

(iv) Reform of local government finance intended to clarify distinction between central and local government responsibility. New planning total would do precisely that. If forward plans for grant are set out as part of the planning total local authorities will find it harder to blame increases in community charge on changes in grant.