RA

PRIME MINISTER

LOCAL AUTHORITY GRANT SETTLEMENT 1989

You talked through some of the issues this morning with Richard Wilson and John Mills.

In the light of that talk, I have now authorised DOE to circulate their paper for Thursday's meeting of E(LF). I have told DOE that you remain concerned about the safety net package, but did not indicate to them the way you were envisaging tackling this.

I thought I should, however, go further to alert John Major to what you had in mind. So, Richard Wilson and I have had a talk with him. We explained your worries about the need to deal effectively with the problem areas, eg in inner London and Lancashire, and raised the possibility of privately holding back a small amount of extra Government grant which would be announced much later.

John Major does, I think, recognise your concerns. He too is worried about Lancashire (Tony Favell is his PPS). But he is concerned about trying to handle this by holding money back until late in the day, and questions the politics of being seen to concede a change in the settlement in the face of pressure. And, as Richard Wilson hinted this morning, there is a legal difficulty; Nick Ridley is required under the new system to make a once for all report to Parliament on the distributional impact of the transitional arrangements and the safety net, and were he to go back on this late in the day, legislation would be required.

So John Major's feeling is that, if something more is to be done on the safety net, it is best done early. He is now commissioning urgent work in the Treasury on the options, and looking particularly at the possibility of a supplementary safety net, particularly targeted on areas of existing low rateable value (which are said to be concentrated in

Lancashire and Yorkshire). Whereas the basic safety net, as in the Ridley/Major paper, is self-financing, this supplementary arrangement might be financed by extra specific Exchequer grant. I think John Major could also be persuaded to add a bit more to the special ILEA grant outside the safety net.

If this further work comes up with something, John Major may send you a private note before Thursday's meeting.

In any event, all this now points to your handling Thursday's meeting as follows:

- start by focusing on the overall aggregate for total standard spending and Aggregate External Finance. The service Ministers will all press for more. But you may wish strongly to support the revised Ridley/Major package in the paper.

- only when that is settled, move on to the safety net. On this have a "second reading" debate and sum up by commissioning further work. You should not in the meeting specifically refer to the possibility of extra grant.

- you might then have a private meeting with Nick Ridley and John Major to discuss a revised safety net package. And when they report back to the next meeting of E(LF), the aim should be to reach agreement on an amended package, incorporating a bit more Exchequer grant to deal with the particular problems of Lancashire and London.

PRCG.

PAUL GRAY

19 June 1989