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cc CF file

PAUL GRAY

John Patten  
We spoke. As you said, the next has now passed.  
6 March 1990  
But in agreement, like I see you point, I'm not sure it was right to send the M into this.

1991/2 LOCAL AUTHORITY GRANT SETTLEMENT

Doc 6  
9/13

Chris Patten's letter of 2 March to John Macgregor, and their earlier exchange of letters, refer.

As a result of this correspondence, a potentially very significant change is now being proposed in the remit for the discussions with local authorities about 1991/2 expenditure. This could have unintended and damaging consequences, particularly in view of the tense atmosphere at present on this whole subject.

John Macgregor proposed adding to the remit, in sub-paragraph (2), the words:

".. and in the light of the assumptions underlying the 1990/1 local authority grant settlement".

This would, in that sub-paragraph, have related specifically to the scope for increased efficiency. DES' thinking is, I believe, that such a phrase would simply give them a peg on which to refer back to a detailed document it put to the local authorities last year breaking down the education component of TSS on a 'best practice' basis.

Chris Patten has taken this on board, but proposes putting the additional words into paragraph 1 of the remit so that they would relate to the whole debate about next year's spending. He argues that this would make clear that the startingpoint for the whole discussion, not just that part relating to efficiency savings, should be the 1990/91 settlement.

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This raises two issues.

**First:** Whether the starting-point for calculating TSS in 1991 should be TSS in 1990 or local authority planned expenditure (or something between the two) is a **major decision**. This is not the right place or time to take it. But the additional words would, in effect, indicate the Government's intention to base it on 1990 TSS.

**Second:** Regardless of the above point, to open up debate about the assumptions underlining the 1990/91 settlement would be a new departure, and could prove very damaging. TSS was presented last year as a top-down figure. It was, and still is, simply defined publicly as spending the Government considers necessary for a standard level of services. No "underlying assumptions" were disclosed when TSS was announced, save the GDP deflator. (The main assumption, of course, was that local authority spending was much too high and needed to be curbed).

Moreover, to give the local authorities the chance now to probe last year's assumptions about TSS could give unwelcome ammunition to authorities if legal battles arise over capping and there were arguments about 'reasonable' and 'excessive' expenditure.

CONCLUSION AND RECOMMENDATION

Chris Patten's proposed additional words could unwittingly draw the Government into an unwelcome debate about last year's decisions on the 1990 settlement. This would be intrinsically

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damaging, but would also undermine the essentially factual nature which these official-level discussions are meant to have. More important, the additional words could pre-empt what may turn out to be a very fundamental decision: whether, at least to some extent, to base the 1991 settlement on 1990 budgets rather than just on 1990 TSS. However this is decided later this year, it would be entirely wrong to send out any signals at this time and in this kind of forum, as to the Government's intentions. At this stage the only sensible course is, in public, to keep options open.

I recommend therefore that the Prime Minister should strongly question the wisdom of including the proposed additional words, on the grounds that they will generate unnecessary controversy about the assumptions made in 1989 (but not then made public) and which have since assumed such political significance, divert attention from the intended purposes of the discussions in question, and possibly pre-empt decisions on the actual basis of the 1991 settlement which the Government are not yet in a position to take.

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