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FROM: A C S ALLAN

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to
anyone

CHANCELLOR

RSG SETTLEMENT 1989-90

m.

A few fairly basic points - but there's quite a lot at stake in negotiating the technical details fiercely.

2. Mr Ridley will fight very hard to maintain the grant percentage. I doubt we will get it down by more than a token amount - and then only if we can dream up some technical justifications.

3. This points to being as mean as possible on provision. Mr Ridley will be reasonably sympathetic, though service Ministers will be very difficult. They will be able to argue - with justification - that this is presentationally disastrous for them: we set their provision at levels we know cannot be achieved; they get criticised for "cuts"; and then we complain about local authority "overspending".

4. But while we are stuck with the grant percentage - and the present planning total - we just have to put our heads down and bash away at provision. Roll on the new planning total!

5. The tone of Ridley's paper makes it seem as if he might accept provision at a 1 per cent real terms cut on 1988-89 budgets. I think we should go for that. As a matter of tactics, we might insist that Ridley's paper includes a fourth option, with provision at a 2 per cent real terms cut on 1988-89 budgets.



6. A 1 per cent real term cut with a constant grant percentage is essentially the option discussed in Fellgett's note of 11 May. I can't say it's very attractive - £880 million more grant, a 6.8 per cent increase. So we should combine it with being very tough on the "unallocated margin", which should produce a substantial grant underclaim. We certainly should not buy Ridley's proposal of an allocated margin set at the same percentage of provision as last year - that implies an enormous increase in GRES (8% on my rough calculations), which are supposed to measure local authorities "needs". An appalling signal.

7. On tactics, I am sure we should start by proposing a reduced grant percentage. The original proposal in Fellgett's note of 5 May - starting with an option which produces an increase in the grant percentage - is suicidal. Ridley would pocket it at once.

8. Two other points

- (a) where is the further advice on fixing grant three years' ahead?
- (b) we certainly cannot accept Ridley's "objective" of "providing Government support for 50% of local spending needs in the new system".

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