



MINUTES OF A MEETING HELD IN CHANCELLOR'S ROOM
HM TREASURY AT 10.00AM ON FRIDAY 20 MAY

Those present

Chancellor
Chief Secretary
Mr Anson
Mr Phillips
Mr Turnbull
Mr Potter
Mr Fellgett

RSG SETTLEMENT 1989-90: TACTICS

The Chancellor said that from the draft of Mr Ridley's paper it was clear that he attached great importance to maintaining the grant percentage at the present 44.7 per cent. The Chancellor thought it unlikely that we would in the end succeed in cutting this down at all, but a victory here for Mr Ridley might incline him to support a Treasury line elsewhere.

2. The Chancellor thought the Treasury priority should be to get as tough as possible a settlement on provision. As an opening position, he thought that we should ask DOE to include in their paper exemplifications of a fourth option - a 2 per cent real terms cut on 1988-89 budgets - although in the end a reasonable Treasury objective might be to settle at Mr Ridley's Option 3. On the high spending assumption, this would produce rate increases of $7\frac{1}{2}$ per cent - the same as, or lower than, average rate increases this year. Overall, it would be a pretty generous settlement from the Treasury's point of view - £880 million more grant, a 6.8 per cent increase. So it would be important to be as tough as possible on the unallocated margin: Mr Ridley's proposal that it should be the same percentage of provision as last year implied a massive rise in GRES, ^{which would give} a very odd signal, and would mean that outturn grant rose even faster than grant at Settlement. The Chief Secretary said that he would consider with officials how far the Treasury could hope to squeeze GRES.

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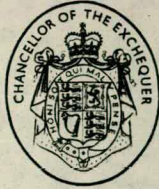


3. There were a number of other points on which the Chancellor thought it would be worth challenging Mr Ridley. First of all, we could not accept the assertion that the Government had an "objective" of providing support for 50 per cent of local spending needs in the new system. This line had been developed independently by DOE Ministers, as an illustrative assumption, and had not been collectively endorsed as an objective. Secondly, it seemed very odd to propose to reduce the number of rate-capped authorities from 17 to 7. Under the community charge, it seemed quite likely that we would need to increase the number of capped authorities, and it was therefore perverse to draw back on this now. We should ask to see the legal advice on which the DOE proposal was said to be based.

4. The Chancellor noted that Mr Ridley was arguing for high grant in order to keep rates low in the year before the community charge was introduced. This was a perverse approach. Instead, we should be keeping rates at a level where everyone would be glad to see the end of them. Any easing should coincide with the introduction of the community charge, rather than precede it.

5. The Chancellor asked whether others saw advantage in making a move to settle three years of forward grant this year. It might be argued that the time was not yet right, but he felt that next year might be even worse. The pressure for grant generosity in 1990 was unlikely to be seen off completely, so the question was whether we would gain from fighting for a three year settlement this year. Was it better to have a baseline than to have none at all? Mr Potter thought that there might be attraction in negotiating grant for Years 2 and 3 separately in September or October. This would tie in with settling the transitional safety net, where DOE had said that the grant and NNDR would be set at a level such that local authorities only had to raise the same amount in community charge as they had raised from domestic rates in 1989-90. The Chancellor noted there was a clear downside to this: the more we linked the first year of the community charge with this year's rates, the more force there would be in Mr Ridley's arguments that this year the rates should be held down by increasing grant. If

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Mr Ridley won that argument, it would not stop him coming back and looking for further easing in 1990. Mr Fellgett added that the transitional arrangements were already generous - in 1990-91 there would be no under-claim because of local authority over-spending, and so we would pay out the full settlement grant.

6. The Chief Secretary said that he agreed with this general strategy. We might well have to give Mr Ridley what he wanted on the grant percentage, as he was our only ally on provision. There might be advantage in sorting out something with Mr Ridley - even if this was not displayed to the full Committee - before approaching Mr Parkinson. Our other lines of attack should be:

- (a) fighting off the proposed reduction in the number of rate-capped authorities;
- (b) pressing for as large an unallocated margin as possible, in order to restrain the increase in GREs; and
- (c) looking again at the gap between provision and relevant expenditure, which might leave some scope for reducing the £880 million grant cost of Option 3 to a less unattractive level.

More generally, the case for restraint could be underlined by:

- (d) pointing to the priority that other areas, eg Health, must have in this year's Survey; and
- (e) comparing the actual rate increases that are taking place this year with the frightening predictions produced by DOE at E(LA) last year.

Mpw

MOIRA WALLACE

24 May 1988

Distribution

Those present
Sir P Middleton
Mr A J C Edwards (o/a)
Mr Tyrie