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[discussed @ CST prep
Waterer]
FROM: R FELLGETT

DATE: 24 May 1988

- [1. MR POTTER] *discussed in draft*
2. CHIEF SECRETARY

Ch
This seems OK.
AA
cc Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Mr Call

1989-90 RATE SUPPORT GRANT SETTLEMENT FOR ENGLAND

We have now discussed the figuring underlying Mr Ridley's draft paper for E(LA) with DOE officials. We will work with them towards neutral tables, agreed between us so far as possible, that you and Mr Ridley can have in front of you at your meeting on 7 June.

2. For this purpose, we will need to propose further options for both AEG and expenditure provision. In the light of the Chancellor's meeting on Friday, and the figures as we now understand them, I suggest the following:

(i) two options for AEG - increases of £520 million and £620 million compared to the 1988-89 settlement (adjusted for polytechnics);

(ii) one option for provision, calculated as local authorities' own budgets for 1988-89, increased by 2%, adjusted for rate-capped authorities and the Metropolitan police, plus £100 million for Community Charge preparation costs.

3. An increase of £520 million in Aggregate Exchequer Grant would give about £13,500 million for the 1989-90 RSG settlement. This increase at settlement would be the same as the increase at outturn in 1988-89 (ie after allowing for underclaim in both 1988-89 and 1987-88). It could also be defended as flat in real terms; it represents an increase of 4%, like the FSBR GDP deflator for 1989-90. It appears significantly less than Mr Ridley's

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proposed increase of £1,050 million, and on the level of provision he favours it implies a reduction in the grant percentage from 44.7% to 42.9%. This could be your starting position. The fallback option of an increase in AEG of £620 million would then be an increase in line with inflation plus the full costs of preparing for the Community Charge. Mr Ridley might find an offer to pay the full costs from Exchequer funds quite attractive.

4. The three options in Mr Ridley's paper for provision allow for increases in expenditure over local authorities' own 1988-89 budgets of 5%, 4% (the GDP deflator), and 3%, plus the adjustments for rate-capped authorities and Community Charge preparation costs. Overall, they represent percentage increases on local authority budgets of about 5½%, 4½%, and 3½% respectively. The new option we suggest is about 1% lower. It would be your opening position, although the Chancellor noted at his meeting that you would eventually probably have to fall back to Mr Ridley's lowest option 3.

5. On this basis, your overall fallback would be an extra £620 million of grant and Mr Ridley's option 3 for provision. We believe there may be scope for squaring this with a grant percentage that is at least broadly unchanged from the 44.7% that Mr Ridley advocates in his draft paper. We would have to reduce the elements of relevant local authority expenditure that are not classified as public expenditure, and hence do not appear in the PEWP or have to be defended by service Ministers. DOE must be aware of this possibility. The additional options proposed above therefore have the advantage of hinting at such a compromise to Mr Ridley, who may be prepared to take it rather than go through a protracted haggle in E(LA).

6. The proposed fallback is slightly more generous than an increase in AEG of £550 million to £600 million, which we suggested earlier as your objective. We will also need to be careful that the detailed settlement assumptions do not lead to a significantly higher increase at outturn, because underclaim is substantially reduced. However, there seems very little prospect of Mr Ridley settling for anything less.

Need to be careful

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7. We will provide full briefing for your meeting with Mr Ridley later. I should now be grateful for your agreement to ask DOE to exemplify the options for provision and AEG suggested above.

Robin Fellgett

R FELLGETT



ppp for PMP

FROM: ZOE EVEREST-PHILLIPS
DATE: 1 June 1988

MR FELLGETT

cc:
Chancellor
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Mr Potter
Mr Call

1989-90 RATE SUPPORT GRANT SETTLEMENT FOR ENGLAND

The Chief Secretary was grateful for your note of 24 May and is content with the line you propose to take with DOE.

A handwritten signature in black ink, appearing to read 'Zoe Everest-Phillips', with a long, sweeping underline.

ZOE EVEREST-PHILLIPS
Assistant Private Secretary