

CONFIDENTIAL



FROM: JILL RUTTER

DATE: 7 June 1988

22nd afternoon
29th afternoon
31st July

Ry

MR POTTER

CC:
PS/Chancellor
Sir Peter Middleton
Mr Anson
Mr H Phillips
Mrs Case
Mr Edwards
Miss Peirson
Mr Turnbull
Mr Fellgett
Mr Call

**MEETING WITH SECRETARY OF STATE FOR ENVIRONMENT: DISCUSSION
ON 1989-90 RSG SETTLEMENT**

The Chief Secretary de-briefed Mr Fellgett and Mr Edwards about the outcome of his meeting with Messrs Ridley and Howard.

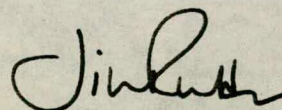
2 The Chief Secretary had a long and good natured discussion with Messrs Ridley and Howard. He said, however, it revealed a fundamental disagreement about the approach to next year's Rate Support Grant settlement. Department of Environment Ministers saw the 1989-90 settlements as a platform for the introduction for the Community Charge - they did not want a very tight settlement because they did not want shire counties running down their balances in 1989-90 to avoid rate increases. They were concerned that authorities would build up their balances again the following year and impose higher community charges and blame the Government. Mr Ridley also expressed his concern about the level of service provision - in particular for DHSS - and said that he wished to hear the arguments of the spending ministers before making up his mind on provision. He also questioned the Chief Secretary's assertion that DOE's rates forecasts had been excessively high last year.

CONFIDENTIAL

3 For a conventional settlement, Mr Ridley revealed himself utterly rigid on maintaining the grant percentage at 44.7 per cent. He said that his bottom line on provision was option (ii) £29.1 billion with an associated AEG at settlement of £14.036 billion. He made it very clear that he was unshiftable opposed to option (b) on grant.

4 The Chief Secretary reported that at the start of the meeting Mr Ridley raised the question of fixed grant and clearly saw considerable advantages in closing down the RSG system in the way set out in your minute. It was agreed that the Treasury and DOE officials should do urgent work on a fixed grant settlement. The Chief Secretary told Mr Ridley that he assumed that this would mean a lower grant settlement since there would be no grant underclaim. Mr Ridley apparently rebutted this by saying that under a conventional settlement there was a risk of a grant overclaim in 1989-90. This work is not to be mentioned outside Treasury and DOE and, if no agreement has been reached before the first E(LA), it would not be mentioned there. From Mr Ridley's presentation of the fixed grant settlement it seems implicit that he accepts that it would not make sense to talk in terms of maintaining the grant percentage at 44.7 per cent - though Mr Ridley did not explicitly make this point at the meeting.

5 The Chief Secretary would be grateful if LG could take the necessary work forward. He does not intend to write to Mr Parkinson at this stage. He would welcome a report back in the next week on progress made with DOE officials.



JILL RUTTER
PRIVATE SECRETARY