



FROM: A C S ALLAN

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CHANCELLOR

LOCAL GOVERNMENT FINANCE

The Chief Secretary and Mr Ridley discussed all this last night (Thursday). Jill will be providing a record of the meeting, but probably not until Monday morning.

*draft now
behind*

Capital Receipts

I don't feel particularly well placed to advise on this. It does seem to me appalling that it was not picked up earlier. Mr Ridley has agreed to delay consultation paper while further discussions take place about how exactly we should act to block the loophole.

Close-down of RSG system

The draft DoE paper sets out the problem. To solve this:

- i. DoE favour option 1, closing down the RSG system now. This means that no further adjustments to grant claims for 1988-89 or earlier years would be allowed, thus preventing local authorities from using special funds etc to fiddle their books. For 1989-90, there would be a fixed grant settlement, with no possibility of under-claim or over-claim.
- ii. The Treasury favours option 3, delay closing down the RSG system until July next year. The main Treasury reason for this (see also below) is to leave grant pressures in place for 1988-89 budgets, so that if local authorities spend more they get less grant.



John Anson in particular attaches great weight to the arguments of Parliamentary propriety. He feels that Mr Ridley's option 1 is being much too cavalier with Parliament. Jill and I both have considerable doubts. It is not clear to us why closing the system down in July next year would be any easier from a Parliamentary point of view. And option 3 is high risk: it gives another year for local authorities to fiddle their books for 1988-89 and earlier years and claim more grant. Mr Ridley's reaction at the meeting with the Chief Secretary, was quite reasonable though no doubt slightly disengenuously, that it was no skin off his nose if we delayed closing down the RSG system for another year: he was trying to help the Treasury by preventing any surge in grant claims.

What really matter is how tough a fixed grant settlement Mr Ridley would sign up to; and how tough he would be on the related capital control issues. If we can get a reasonable fixed grant settlement then it would be much safer to go for that. If - as Treasury officials fear - the price would be too high, then there may be a case for taking the risk with option 3. It is hard to come to a decision until Mr Ridley comes up with some numbers.


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