



Treasury Chambers, Parliament Street, SW1P 3AG

Roger Bright Esq
Private Secretary
to the Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1

CX.
Sir P Middleton

Mr Anson,

Mr Phillips

Mr Edwards

29 June 1988

Mr Potter

Mr Fellgett

Mr Tyrre

Dear Roger,

RATE SUPPORT GRANT SETTLEMENT/CAPITAL CONTROLS

The Chief Secretary held a meeting with your Secretary of State to follow on from the meeting he had last Thursday. Also present were the Minister for Local Government, Mr Osborn, Mr Brearley, Mr Parker and Mr Roberts from DOE and Mr Edwards and Mr Fellgett from the Treasury.

Your Secretary of State said he thought the timetable was now critical. He believed that the closedown decision needed to be made such that it could be put to Cabinet on 7 July with an announcement made immediately thereafter. He would want to publish the capital control document on the same day. The RSG announcement would be made later. Mr Howard said this would allow E(LA) to discuss grant and provision in the light of the decision on closedown. It would not be possible to inform E(LA) about closedown before Cabinet. The Chief Secretary said that he did not think it was possible to separate the question of grant element of the settlement from the decision on closedown in the way proposed. His attitude to the decision on closedown was coloured by the likely settlement. Your Secretary of State said he thought ideally he would like to settle the whole package with the Chief Secretary so that it could then be put the Chairman of E(LA), the Prime Minister and the Chancellor.

Turning to the officials' paper, your Secretary of State said that his strong preference was for Option G1 - early closedown - and Option C1 which would be an immediate prohibition on advance maintenance. He was not attracted to Option C 2. The Chief Secretary said he saw considerable attractions in early closedown

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though the grant figure associated with it was critical. He would like to take the Secretary of State's mind on the likely grant figures he would associate with either settlement. Your Secretary of State had already indicated that he would envisage a tougher settlement with early closedown than that he had proposed to E(LA).

Your Secretary of State said that an analysis by DOE officials suggested that early closedown would save the Exchequer some £300 million in back claims for grant in respect of 1987-88 and 1988-89. The Exchequer would lose the benefit of the potential underclaim of a similar size in 1989-90. That led him to think the figure proposed to E(LA) was of broadly the right order of magnitude. He would, however, be prepared to reduce that by £250 million. To go further than that would have in his view unacceptable consequences for a rate increases. He was anxious to avoid a situation where local authorities exhausted their balances in 1989-90 and then built them up in the first year of the Community Charge. The Chief Secretary noted that behavioural effects could go in both ways. Local authorities would have a powerful incentive in any case to minimise rate increases next year. Mr Howard said that he wanted a settlement which enabled the Government to ensure that some authorities at least would be able to produce low initial Community Charges and these could then be held up as an example to other authorities who would undoubtedly would attempt to levy excessive Community Charges in 1990-91. Your Secretary of State said he would find a much tougher settlement than he was now proposing difficult to present alongside the decision on early closedown which would be presented as denying local authorities grant they might otherwise expect, and possible action to limit use of receipts for capitalised repairs.

The Chief Secretary said he did not believe the presentation need be as difficult as your Secretary of State was proposing. In order to avoid a surge in local authority spending in 1989-90 when the marginal pressure would be removed through early closedown he would be looking for a settlement tougher than the £520 million addition to AEG he had proposed to E(LA). Like your Secretary of State he believed that that justified some £250 million off his initial proposal for grant. It had to be remembered that not closing down the system and taking action to block off manipulations was another option. Your Secretary of State said he did not believe that would be feasible and would require repeated action by DOE. That was why he found Option 2 so unpalatable. Moreover because of the risk to the Exchequer associated with Option 2 an even tougher settlement than that he was now proposing would be required. But that would start to have very harsh effects on authorities which had not created special funds. A settlement which was sufficiently tough to offset the risks to the Exchequer would have the perverse effect of allowing authorities which had built up special funds to obtain a grant advantage from their use while forcing authorities which

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had not used this device to have high rate increases.

It was agreed that in order to take the matter forward DOE officials should, in consultation with the Treasury, produce some exemplifications of the rate effects of varying levels of grant additions ranging from £350 million to £850 million compared with 1988-89 AEG at settlement. That had now been corrected. There would be a further meeting. The aim would then be to prepare a paper for discussion with the Prime Minister, Mr Parkinson and the Chancellor. The Chief Secretary noted, that last year DOE had over-stated likely rate increases by a considerable margin. Mr Roberts said that this was due in part to an error in the allowance made for rateable value increases.

The Chief Secretary noted he would not be prepared to leave the decision on grant to be made separately from the decision on closedown. He might still wish to argue that it was preferable to delay closedown and take action to block off creative accounting. Your Secretary of State said that he could live with Option 2 and simply let the Exchequer take the risk.

On capital, your Secretary of State said he was prepared to action along the lines set out in Option C1. He did however, have severe reservations about Option C2. The Chief Secretary said he was attracted to this. He would wish to see action taken in 1989-90, taking account of any excessive use of capitalisation in 1988-89. Mr Parker confirmed that it was feasible. There were various ways in which the limitation might be exercised. Your Secretary of State felt this would not be politically sustainable. The Chief Secretary asked whether your Secretary of State's objection was to any action at all or whether he would be prepared to accept a limitation based on uprating previous use of receipts for repairs. Your Secretary of State said that he would still regard such action as unfair but would prefer action in that form if action were needed. He did however very much wish to avoid an early announcement of action on 1989-90. It was not required operationally until the end of the year.

It was agreed that capital control document should be prepared for publication on 7 July. Your Secretary of State noted that he would be more resistant to Option C2 than to tougher grant.

A meeting has now been fixed for 2.30pm tomorrow.

Yours,

JRH

JILL RUTTER
Private Secretary