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FROM: CHIEF SECRETARY
DATE: 30 June 1988

CHANCELLOR

a
Can discuss with CST
in margin of payes
AA

cc Sir P Middleton
Mr Anson
Mr Edwards
Mr Potter
Mr Fellgett

*Thanks. So far,
so good. Video was
that this is
made to
stick. M*

RSG 1989-90 AND CAPITAL RECEIPTS

When Nick Ridley and Michael Howard came to see me this afternoon, we reached provisional agreement on the following package:

- (i) a fixed grant of £13,575 million for 1989-90, representing an increase of £600 million on the grant at settlement in the current year;
- (ii) immediate closedown of grant claims in respect of all earlier years, as in option 1 which we discussed with you on Monday;
- (iii) no action for now on capital receipts (because this would draw attention to the possibilities for manipulation) but a commitment by Nick Ridley to consider with us what action is needed, for announcement towards the end of the year or earlier if necessary;
- (iv) issue of the consultative paper on the new capital control system.

2. We agreed that the aim should be to announce items (i), (ii), (iv) after discussion at Cabinet. I made clear that we must announce the quantum of grant simultaneously with the fixed grant/closedown proposal since otherwise we would come under intense pressure from authorities hurt by closedown to provide a generous grant settlement. Nick took the point that it would be difficult to announce a fixed grant without saying how much it would be.

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3. In preparation for next Thursday's announcement, we agreed that Nick Ridley would minute the Prime Minister and a few other Ministers closely concerned before the weekend. We envisage that the Prime Minister would hold a meeting on Monday or Tuesday of next week, followed by discussion in E(LA) on Wednesday evening, in preparation for Cabinet on Thursday and the announcement later that day.

4. Although Nick Ridley did not finally commit himself to the grant figure of £13,575 million for next year, he came extremely close to doing so. He was concerned as a matter of presentation to be able to say that he had made an allowance for the fact that local authorities would not now receive any grant award for underspending over the past two years. I insisted however that any such allowance must come within the £13,575 million total. I pointed out that such a grant could be convincingly presented as representing an increase of 9% compared with projected grant at outturn this year and that on his own figures (included in Mr Edwards's submission of last night) this grant would imply an average rate increase of not more than 5½% (if LAs again increase their spending by 7½%).

5. Now that Nick Ridley is prepared to accept a drop in the grant percentage and we have agreed on fixed grant the decision on provision assumes less significance. Nick and I agreed that there would be considerable advantage in reaching agreement on all the key elements on the settlement for announcement next Thursday. E(LA) will discuss provision next week. In my view it should be possible to get agreement on a 4 per cent increase over local authorities 1988-89 Budgets plus an allowance of £110 million for CC preparation costs i.e. £350 million more than allowed for in GEP's present assessment. In my view ^{service} ~~since~~ colleagues are unlikely to settle for less and I think we could live with it. We may have to go further.

6. I hope you will feel, as I do, that this will represent

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a satisfactory outcome and that our aim should now be to join Nick Ridley in commending it to colleagues.

7. In that connection there are, I think, three pieces of next action.

8. First, we need to enlist John Wakeham to the cause. The whole plan depends on obtaining time for a short but probably controversial money Bill in the next parliamentary Session. Although I would be glad to speak to him myself, I think it would be much better for you to do so if you are willing. I would of course be delighted to accompany you if you think that would be helpful.

9. Second, we need to bring Peter Walker on board since similar arrangements will need to be made ^{in Wales.} Nick Ridley is attempting this. Scotland, is, as always, different.

10. Third, we need to tell Cecil Parkinson where we are, I will be speaking to him this evening.

(
CST has done, & CP seemed content, though nervous about bill.

John Major

PP JOHN MAJOR