

CONFIDENTIAL

*pp*

FROM: R FELLGETT  
DATE: 1 JULY 1988

CHIEF SECRETARY

cc Chancellor ←  
Sir P Middleton  
Mr Anson  
Mr Edwards  
Mr Potter

RSG 1989-90 AND CAPITAL RECEIPTS

The Prime Minister will take a meeting at 11.30 on Monday morning to discuss Mr Ridley's minute of today. - *below*

2. At that meeting you will wish to :

i. support Mr Ridley's case that urgent closedown is needed, in view of the risks to the Exchequer (which amount in all in the ~~most~~ <sup>worst</sup> possible case to some £1.2 billion) identified in the paper by DOE and listed at Annex A to that paper;

ii. convince the Prime Minister that an announcement needs to be made as soon as Thursday 7 July - a few key points to make are at A attached;

iii. convince her and the business managers that, regrettably, there is no choice but to take a short money Bill - see B attached;

*Mr Ridley is going to ring Mr Whitehead over the w/e.*

iv. obtain the firm endorsement of the meeting for the AEG quantum of £13575 million you have agreed with Mr Ridley - see C attached.

3. The meeting should also note that the capital consultation paper should issue as originally agreed, also on 7 July.

4. Cabinet Office are provisionally arranging a meeting of E(LA) on Wednesday 6 July, to discuss all this with colleagues if the Prime Minister and others agree to go ahead. We have established today that Mr Ridley cannot announce AEG on Thursday

CONFIDENTIAL

without simultaneously announcing provision, for legal reasons. And also for legal reasons, he cannot announce provision without announcing rate capping. The E(LA) meeting will therefore have to agree provision, however long that takes, and resolve any differences of view on rate capping; so far as we are aware the only dispute may be over the precise Expenditure Level for ILEA.

5. I understand that Mr Ridley spoke to Mr Walker this morning. DOE officials and I subsequently briefed Welsh Office officials. They were inclined to recognise that Wales would have to follow England, and close down with a fixed grant settlement. They are also keen to issue the capital consultation paper on Thursday. But their initial view was that Mr Walker would be looking for a quantum of AEG involving a bigger rise for Wales than for England, ie more in Wales than 4% plus a substantial contribution towards Community Charge preparation costs. They will quantify their arguments, but I am not convinced that there is any justification for a more generous increase in Wales; Mr Ridley may have enough difficulty making his statement without Mr Walker (or Mr Roberts, as Mr Walker is in Russia all next week) making the English settlement look mean by comparison.

6. I suggest that you say on Monday that the Welsh RSG system must be closed down simultaneously with England. Otherwise invidious comparisons would be made between the treatment of neighbouring counties in the Marches. If the quantum of AEG for Wales is raised at the PM's meeting you might get a very quick agreement to the same percentage uplift as in England. If not, you may need to discuss it with a Welsh Minister during Tuesday.

7. I understand that you asked for a list of the legislative measures that might be needed if we do not close down. We will forward this during Monday morning.

*Robin Fellgett*

R FELLGETT

**A. 7 July unavoidable now:**

- Capital receipts issue already leaking; Guardian of first July has headline "Treasury holds up Council Cash plan"; if councils get wind of closedown they could send in information about alleged lower expenditure and claim hundreds of millions of unjustified additional Exchequer grant.
- Cannot again cancel E(LA) when colleagues believe so little progress has been made on the RSG settlement which should be announced this month; if it is cancelled again colleagues will know that something is afoot and so will their departmental officials; grave risk of the news leaking.

**B. Additional Bill in the 1988-89 session necessary:**

- Highly regrettable, and looked carefully at ways of avoiding another Bill.
- Cannot add clauses to the Local Government and Housing Bill, which will not receive Royal Assent until well after the start of the 1989-90 financial year. New powers are needed to pay grant on the new basis before the start of the next financial year.
- Bill should be a very short money Bill; best not take this issue through the Lords.
- The alternative to action along the lines proposed could be a series of "midnight to night" announcements and legislative measures to block creative accounting to manipulate additional Exchequer grant. [Possible details to follow.]

**C. Stick to £13575 million as agreed and not a penny more.**

- Agreed with Environment Secretary (see his minute), subject to endorsement of colleagues in E(LA) on Wednesday and Cabinet on Thursday.
- Although closedown proposal is best available option, remain concerned about potential additional expenditure by local authorities in 1989-90. Agreed quantum of grant represents an increase at settlement of 4% plus £80 million to substantially finance Community Charge preparation costs. Any more would encourage higher local authority public expenditure.
- £13575 million represents £1.1 billion (9%) more than grant actually paid in current year (after holdback) - generous increase already.
- According to DOE estimates, rates rises in 1989-90 forecast to be five and a half percent on average, and six and a half percent for non-rate capped authorities. Actually less than in 1988-89, and no reason to try to push them lower still to make the rates popular again in their last year.