

PERSONAL

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SECRET & PERSONAL

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Prime Minister

From: J B UNWIN

31 October 1986

LORD PRESIDENT

STAR CHAMBER: SCOTLAND

We may need an urgent meeting on Monday to discuss further tactics eg whether this should go next to E(S) or to Cabinet. *mb*

I much regret that, despite protracted further discussions with the Scottish, I have still been unable to bridge the gap. *31/10.*

2. Scottish Office officials themselves are being constructive and helpful and doing what they can to persuade the Secretary of State that he can defend further reductions that would bring him to baseline. But (according to them) his position is now harder than it was yesterday and he has so far refused to accept anything that would take him below £25.5 million above baseline. My last assessment from the Scottish Office this afternoon was that they thought they might get him to £20 million above baseline - but they could at present find no means of going further.

3. To summarise the arithmetic briefly, you will recall that Mr Rifkind's last formal offer was £50 million above baseline. The Group stuck on £50 million below baseline; you floated the possibility of a settlement at baseline.

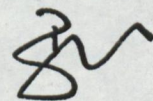
4. The only further reductions Mr Rifkind now seems willing to offer are:

(i) deduction from base of provision for rate revaluation rebates	<u>14.5</u>
(ii) reduction from applying population change to formula (from 11.76% to 11.51%)	10
Total further reductions	<u>24.5</u>
Amount still outstanding above baseline	<u>25.5</u>

5. It is simply not credible that Mr Rifkind could not defend removing this remaining 25.5. In my view the simplest way of so doing would be to attribute a larger reduction to the effect of relative population changes on the base (he has already accepted the principle by being willing to attribute 19.5 to this). His position seems to be, however, that this would take him too far down the slippery slope.

6. I am sorry not to have been more successful. I have made one or two further suggestions that the Scottish Office are considering, but there has been no joy so far. You may like to have a word on Monday morning on how to take matters further. I think it will be necessary for you to have another word with Mr Rifkind (necessarily on the telephone) before the Star Chamber on Monday afternoon.

7. I should add that the Chief Secretary continues to take a very hard line. He told me last night that his position remained that Mr Rifkind must be brought well below baseline.



J B UNWIN