

SECRET AND PERSONAL



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NOTE OF A MEETING HELD ON MONDAY, 27 JUNE 1988

AT NO. 11 DOWNING STREET

Present:

Chancellor  
 Chief Secretary  
 Mr Anson  
 Mr A J C Edwards  
 Mr Potter  
 Mr Tyrie  
 Mr A C S Allan

RSG SETTLEMENT AND RELATED MATTERS

Papers: -Mr Edwards' minute of 27 June and previous papers.

The Chancellor thanked Mr Edwards for his helpful note. He said however that he took the view that the position was more evenly balanced than Treasury officials' were indicating. The Chief Secretary said that Mr Ridley was strongly supporting Option 1. On financial and propriety grounds officials' advice was for Option 2. He shared the Chancellor's view that the position was more evenly balanced than suggested. There was difficulty in quantifying the consequences of either option. Much depended on how the financial effects were taken into account in the eventual RSG settlement. He found that the prospect of certainty in the early closedown route attractive. But it would require a Bill at the beginning of the 1988-89 session. The business managers would need to be consulted on that. The Chancellor asked if Mr Ridley had indicated what sort of settlement he would envisage associated with early closedown. The Chief Secretary said Mr Ridley had not put any firm figure on this.

2 Mr Anson said that he would agree with the Chancellor and the Chief Secretary that the argument was evenly balanced if Option 1 did indeed offer certainty. But he was concerned that



Mr Ridley would be forced off a tougher initial stance as early closedown was taken through the House of Commons and was subject to judicial review. He was also concerned that Option 1 would be perceived as very unfair. Local authorities did have a legitimate entitlement to reclaim grant, having lost it when they made the transfer into special funds. He thought that this was the sort of legislation which the courts would seek to unstitch. The Chancellor said he thought that it would be possible to carry this sort of legislation through the House. However, making the legislation judicial-review-proof was another question. DOE would need top quality legal advice on the scope for making the legislation watertight. He had noted in the record of the meeting with the Secretary of State for the Environment that DOE were concerned that closedown in July 1989 might not be possible if there were court cases pending. Mr Potter noted that DOE would only be in trouble if an authority was specifically challenging total expenditure. There were at the moment two court cases on other issues outstanding.

3 The Chancellor said that he thought in reality the choice was between either closing down in July as per Option 1 or not closing down at all. Local Authorities would undoubtedly run down their balances. Option 1 would stop them getting a grant benefit on that. They would in any case still have the financial benefit of using those balances. Without closedown, local authorities would both have the financial benefit of running down their special funds and the benefit of extra grant paid on it. There would therefore need to be a tougher settlement Option 2 than with Option 1. He did not think it would be possible to get an agreement on a sufficiently tough settlement to offset that. Moreover a settlement which took full account of the scope for special fund use would be unfair to those local authorities which had not created special funds. Option 1 would mean rough justice. But the justice would be even rougher under Option 2.

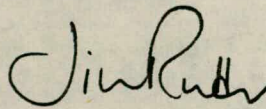
4 After some further discussion, the Chancellor and the Chief Secretary agreed that it was essential to make Mr Ridley put



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some numbers on the sort of settlement he would envisage under Option 1. The Chief Secretary should have a further early meeting with Mr Ridley. It would be better to approach the Prime Minister with a degree of agreement between the two departments. A meeting this week with the Prime Minister would thus be premature. If Mr Ridley were prepared to offer a suitably tough settlement with Option 1, then the Treasury should be prepared to agree.

5 The Chief Secretary raised the issue of how to cope with the rundown of receipts through the capitalisation of revenue expenditure. The Chief Secretary noted that the Treasury had proposed mechanisms for stopping such a rundown to the Secretary of State, but he had been disinclined to take them. DOE's view was that with early closedown the additional spending was likely only to be of the order of £200 million. Mr Potter said considerable sums were at risk. He believed that it would be possible to revise the general consent for use of capital receipts for non-prescribed spending in relation to 1989-90, and to take into account any surge in 1988-89 in exercising that consent. Mr Edwards' said that DOE officials were not clear on their Secretary of State's view. They would still like to publish on 28 June. His view was that the Treasury should now let the consultation document go ahead provided they were prepared to agree to action in 1989-90 on the basis proposed. The Chancellor agreed that DOE should be given the go-ahead to publish on 28 June if they were prepared to exercise effective control 1989-90 and take account of spending in 1988-89 in the way suggested by Mr Potter.



JILL RUTTER  
Private Secretary

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Those present  
Sir Peter Middleton  
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