

SECRET AND PERSONAL

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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
 Mr Potter
 4 July 1988
 Mr Fellgett
 Mr Tyrrie

Dear Roger,

1989-90 RSG SETTLEMENT/CAPITAL CONTROLS

Your Secretary of State, accompanied by the Minister for Local Government, Mr Osborn, Mr Parker and Mr Roberts discussed this again with the Chief Secretary on 30 June. Also present were Mr Edwards, Mr Potter and Mr Fellgett from the Treasury.

Your Secretary of State opened by saying that he had not previously mentioned the question of what to do about the legitimate underspend on 1987-88 and 1988-89 budgets. DOE had estimated that this was conventionally around $\frac{1}{2}$ per cent of budgets and that would mean a grant entitlement were normal grant mechanisms operating of £75 million a year. There was a question whether that should be compensated for either this year or in the next AEG settlement. He had looked at the figures proposed for grant and would be prepared to settle for AEG at the 1988-89 settlement level plus 4 per cent plus £110 million for Community Charge preparation. That gave grant of £13,600 million and was his bottom line.

The Chief Secretary noted that your Secretary of State had not mentioned the rate effects. On the DOE assumptions about drawings on balances of special funds and actual spending in 1989-90 the rate increases looked extremely modest; he would therefore be looking for a rather lower addition to AEG of £450 million. The previous day's discussion had been concerned

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to avoid rate increases approaching double figures. Grant as high as your Secretary of State proposing was clearly not necessary to do that.

The Minister for Local Government suggested that the DOE might be prepared to accept a slightly lower grant figure - of say £13,575 million - if the issue of amounts due in respect of 1987-88 and 1988-89 be settled separately. The Chief Secretary noted that the Treasury were foreswearing underclaim in 1989-90. Your Secretary of State said he envisaged the possibility of taking something out of the aggregate amount of grant agreed to meet claims for the earlier years. This could be less than £70 million. The Chief Secretary noted that the Minister for Local Government's proposal represented a substantial increase over the figure your Secretary of State had previously proposed. After some further discussion it was agreed that AEG to be paid in 1989-90 should be £13,575 million. Your Secretary of State would consider whether he wished to pay some part of that total in respect of earlier years. Your Secretary of State tended to feel that, with grant of £13,575 million it would be preferable to pay it all in respect of 1989-90.

Your Secretary of State agreed that it would be preferable to announce the grant quantum alongside Option 1 closedown and the capital controls document on 7 July. E(LA) would meet to discuss to settle provision. Your Secretary of State thought it should be possible to get agreement to a 4 per cent increase on budgets plus Community Charge preparation costs i.e. Option 2 in the paper he had put previously to E(LA). This would imply a grant percentage of 43.2 per cent in 1989-90.

The Chief Secretary noted that the agreement of the business managers to provide the necessary legislative time could not be taken for granted. There were severe pressures on the forthcoming legislative session. Mr Roberts that a 2 - 3 Clause Bill was all that was required although the legislation was undoubtedly controversial. Your Secretary of State said he would put a minute to the Prime Minister on Friday. He would speak to the Secretary of State for Wales. He would ask the Cabinet Office to arrange a meeting of E(LA) for the Wednesday before the possible announcement, with a view to seeking Cabinet's endorsement on the Thursday. The proposals would then of course be subject to consultation with local authorities in the usual way.

The Chief Secretary raised the issue of capital receipts. There was general agreement on Option C1, but it was also agreed that this should not be announced alongside the consultation document. Mr Parker said that DOE would be ready to move to stop advance maintenance as soon as it was perceived to become a problem. There was advantage in leaving action to the last minute. Your Secretary of State agreed to wait to see what happened on capitalisation of repairs and consider the action along the lines of C2 if necessary. The Option of taking account

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of the likely of non-prescribed expenditure in the Survey could be reviewed for the Survey in the light of local authorities' reaction to the Green Paper. The Chief Secretary said that his initial view was that the Survey option was not to be preferred. It was agreed that the minute to the Prime Minister should include a reference to the possible need for action on capital.

Yours,

Jill

JILL RUTTER
Private Secretary