CONFIDENTIAL

CHIEF SECRETARY

FROM: B H POTTER (LG1)
X4790
Date: 9 June 1989

cc: Chancellor
Sir Peter Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Edwards (LG)
Mrs Lomax (GEP)
Mr Hudson (LG1)
Mr G White (LG1)
Mrs Chaplin

LOCAL AUTHORITY CURRENT SETTLEMENT

Mrs Phillips (DOE) telephoned me early this morning to report the outcome of DOE officials' meeting with Mr Ridley yesterday.

2. Mr Ridley is "not yet ready" to reach a view and put forward a package deal to you, which would then be presented to colleagues on E(LF). He is particularly concerned about distributional issues - the combined impact of the safety net and new needs assessment on short-term and long-term community charges in different parts of the country. But he has also come to the conclusion that he needs a little more on Revenue Support Grant than proposed under Option C. (Mr Gummer has been stiffening his resistance.)

3. Also Mr Ridley is worried about defending a deal at or near Option C to colleagues in E(LF) and about the impact on the RPI of the community charges implied by Option C.

4. Mrs Phillips told me that Mr Ridley next move was likely to be to seek a private word with you. The main ideas he will wish to put to you are as follows.

(i) A package a little beyond Option C: in particular he is looking for £100-200 million in extra grant (though he may well start with a higher negotiating figure). In terms of AEF, he is seeking a deal at £22.9b/£23b.

(ii) A radically revised safety net: he has asked officials to consider three variants to the existing safety net:

(a) broadly the present form but with a lower maximum contribution than £75 and a non-linear phasing out of the safety net over the four years. The non-linear phasing out idea (which had also occurred to us) has the advantage of protecting the losers for a little longer and giving them time to adjust their expenditure, while after year 1 the gainers should still be able to set lower community charges year after year even if they maintain spending in real terms.

(b) a much less comprehensive safety net, broadly along the lines of that in Scotland. This would operate on the tail-ends of the distribution of community charges, with only the very largest losers getting compensation paid for by postponing the very largest gains.

(c) complete abolition of the safety net - Mr Ridley has of course never supported the safety net.

5. I indicated that Treasury were prepared to be quite flexible on the safety net (it cannot cost us any Exchequer money). We are of course already undertaking some further work internally on the safety net; and we hope to be in a position to report the results to you by very early next week. But, within the limitations of a self-financing safety net and the scope to redirect grant under the new needs assessment, there is no reason in principle while the Treasury should not entertain at least ideas (a) and (b) above. You will wish to judge whether (c) is politically feasible at this stage.

6. On AEF, however, I reminded Mrs Phillips of the Prime Minister's firm line. The instructions are clearly set out in Paul Gray's minute: that options within the scope of B and C only should be presented to colleagues at E(LF). I indicated that you were still looking for a settlement within that range.

Conclusion

7. Mr Ridley's vacillation is very awkward. We are now running out of time. The paper to E(LF) colleagues must go round by no later than Friday June 16th. Mr Ridley is not planning to see the further work by officials on the safety net until Tuesday, June 13. Any deal between you and Mr Ridley must be done on Tuesday or Wednesday of next week.

8. I said to Mrs Phillips that I was sure you would welcome a further private word with Mr Ridley next week. You may well judge that if a firm arrangement on both the safety net and AEF at Option C or perhaps £100 million beyond that is available, that would be worthwhile. However LG1 would be disinclined to go much beyond that: we are concerned that DOE have still not grasped the impact of the likely increase in specific grants, (including the new specific grant proposed for ILEA) on the amount within AEF available for RSG. When they do they may well seek to reopen any deal. At the very least you might come under great pressure in E(LF) to concede the £100 million proposed for ILEA as an addition to AEF.

9. You may wish to have a word with us in advance of any private meeting with Mr Ridley.

Barry H. Potter

BARRY H POTTER