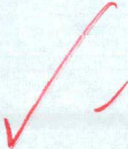


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FROM: BARRY H POTTER (LG1)
DATE: 16 June 1989
x4790

CHIEF SECRETARY

Casimiro
cc Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr A J C Edwards
Mrs Lomax
Mr MacAuslan
Mr G C White
Mr Hudson
Mr Rutnam
Mrs Chaplin

mmp


LOCAL AUTHORITY CURRENT SETTLEMENT

Following the agreement reached between you and the Environment Secretary yesterday evening, DOE have been preparing the proposed E(LF) paper and the minute to the Prime Minister recording the agreement.

2. As I mentioned to you this morning, a hitch arose on the precise form of the safety-net. It turned out that if one allowed all gaining authorities to gain up to £25 per head plus X%, sufficient to pay for all losses up to £25 per adult, the X% figure was only 12%. Accordingly DOE officials explored further options. The favoured option now is that gains up to £20 per adult should be allowed plus 25% of the remainder.

3. In accordance with the leeway you gave me this morning, I indicated to Cabinet Office and to DOE that I thought you could accept this.

4. I attach a copy of the minute which has been sent to the Prime Minister. With the amendments which we have inserted, I hope you will find it acceptable.

5. First it makes very clear that the only reasons you have gone above the Option C on AEF is to accommodate:

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(a) the extra specific grant for ILEA; and

(b) the extra £100 addition to the standard spending assumption (if that had not been done the burden would have fallen on the CCSS).

6. Secondly, there is only one option on AEF mentioned in the paper. This is clearly ideal. However the draft as first shown to us included three options on the safety-net: I asked that they be shown not as options but as points of comparison and that one specific safety-net only should be exemplified, ie that agreed last night as amended slightly during the course of this morning.

7. Thirdly, the minute makes it clear that this is an agreed package.

8. Also attached to the papers are the exemplifications for individual authorities. Looking through the numbers, the pattern of gainers and losers has changed relative to the original safety-net; the new distribution has one obvious casualty. Westminster is left worse off than under the original safety-net proposals; as you know they will object vehemently; and the Prime Minister has indicated some sympathy with their troubles on the original safety-net proposals.

9. One way of ameliorating the Westminster position would be to add a cap on the postponement of gains at the top end. This would also help the other main gainers which have "lost" relative to the original safety-net proposals, ie authorities in places like Buckinghamshire. But it would complicate the formula for allowing gains through; ie gains up to £X in full, plus 7% subject to an overall maximum contribution of Z. It would reduce the £20 or 25% figure for the gains formula. A difficult judgement will need to be made.

10. I have also spoken to Richard Wilson to convey the points about the settlement and your reaction to it, which you thought might usefully be included in his brief for the Prime Minister.

11. Finally LG1 are now preparing briefing for the E(LF) meeting. We will of course also provide briefing on Mr Baker's paper. However that paper was not circulated today; and may not be circulated on Monday. I understand that the Health Secretary has declined to support the figures included within the tables put forward by DH officials.

BHP

BARRY H POTTER