



PRIME MINISTER

(2) No action this week but I expect you will have to get involved next week. AT 12/6

## E(LA): RATE SUPPORT GRANT SETTLEMENT 1986-87, ENGLAND

This minute is to forewarn you that I may not be able to secure agreement in E(LA) on the main element of next year's rate support grant settlement. It does not call for any action at this stage.

2. I have now chaired three meetings of the Committee. Each year the problem is to reach a settlement which will on the one hand be tough on public expenditure while being realistic, and on the other hand lead to increases in the rate poundages in individual local authorities which are credible and acceptable. This year there is the further issue of whether or not to abandon targets and to rely on the (not insignificant) block grant pressures to produce the results we want. The great complexity of the system we have developed and pressure from our own supporters both suggest that we should get rid of targets if we can, that is if the price in public expenditure terms is not too high.

3. The Committee is at present divided between those (like Patrick Jenkin) who believe both that an increase in PES provision of something like £700 million (which would still represent a real-terms cut of 3 1/2 per cent) is needed if our plans are to be at all realistic and capable of delivery without unacceptably large increases to rate poundages and that such an expenditure could be delivered without targets; others who take a similar view on public expenditure but are worried that expenditure may go still higher if we abandon targets; and the Chief Secretary who believes that a lower public expenditure figure (lower by about £500 million)





should be the objective and that it would be quite wrong to risk abandoning targets. The gap has narrowed but is still wide and we are beginning to run out of time if all the necessary work is to be done before the July settlement announcement. I intend, however, to hold one further meeting of E(LA) when I shall try very hard to secure agreement, because I do not wish to trouble my colleagues in Cabinet with these issues, which are so beset with technicalities, if I can possibly avoid it.

4. The meeting is to be next Monday morning. If I cannot secure agreement I should like to have a word with you after that meeting about how we can best reach sensible decisions quickly.

5. I am copying this minute only to Sir Robert Armstrong.

WLB

Privy Council Office  
12 June 1985