

PRIME MINISTER

Sir Keith's letter (Flag A) looks like an attempt to reopen the agreement reached for an increase of £500 million on local authority spending over PEWP levels. It is not. It is about two things:

- (i) How the inevitable overspend above the target figure is presented. Should the Government make some planned provision for it?
- (ii) How education fares in the nominal share out between services of the total agreed.

Both these issues will be considered by E(LA) under the Lord President's Chairmanship next week. Mr. Brearley's minute (Flag B) suggests a reply. Oliver's note (Flag C) suggests that you could go further.

Agree:

- (i) reply as drafted by Cabinet Office?
- (ii) with Oliver's addition?

*As slightly amended*

*AT*

*Yes*

*no*

8 July 1985