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CC N/O

SECRETARY OF STATE FOR SCOTLAND

NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

Thank you

Prime Minister (2)

To note

AT 3/8

PRIME MINISTER

As you may know, I have been discussing with the Chief Secretary the details of my proposals for the Rate Support Grant settlement for the year 1985-86.

We have been able to agree most of these details including an enhancement of the relevant expenditure figure, strictly according to the usual Scottish formula, and a new and very much more severe penalty system.

I was not able to agree with the Chief Secretary's wish to reduce the figure for Aggregate Exchequer Grant from £1930 million (the same as this year) to £1915 million because of the very severe political effects there will be if there is a reduction in this figure for Scotland while England has no reduction and Wales has an increase.

After consulting the Lord President I have accepted that there is no possibility of further negotiation and I therefore have had to accept a figure which has been imposed against my judgement.

I feel I must inform you about this, so that you will not be taken by surprise if, as I expect, we run into a very serious political situation in Scotland with the whole of local government of all parties, and all the ratepayer and industrial interests ranged up against us.

I write purely to put this on record, not in any way to reopen discussion.

I am sending copies to Willie Whitelaw and to Peter Rees.

G.Y.

G.Y.

3 August 1984

112/40

NBPM

AT 3/8

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

A Turnbull Esq
10 Downing Street
LONDON SW1

3 August 1984

Dear Andrew

SCOTTISH LOCAL AUTHORITY CURRENT EXPENDITURE, 1985-86

The Secretary of State for Scotland's minute of 3 August comments on the figure for Aggregate Exchequer Grant now settled for 1985-86. The Chief Secretary is now away from the office, but I think you should be aware of some other points which have a bearing on this figure.

First, provision for local authority current expenditure in Scotland is being increased by the full £97 million Scottish formula equivalent of the agreed enhancement for England, although some £50 million would have been enough to produce guidelines for Scottish authorities more strictly equivalent to the targets which will be set for English authorities. The ceiling (+4¼% on NIS-adjusted 198485 budgets) and floor (-1½%) for guidelines will be the same as for targets in England. But given the surplus provision available, Scottish authorities will inevitably be treated a good deal more generously than English ones from an expenditure point of view. For example, an English authority budgeting to overspend target by 3% in 198485 would get a target for 1985-86 which was only ¾% above its 1984-85 budget, adjusted for abolition of NIS. In Scotland, the guideline would be 2½% above the 1984-85 NIS-adjusted budget.

than 1984-85

Secondly, while Scottish grant penalties for overspending will be markedly more severe in 1985-86 to give a strong discouragement to overspending of these generous guidelines, they will still not be as tough as the English "holdback" schedule or the Welsh penalty tariff.

Thirdly, the £1,915 million figure for grant is just above the 1984-85 figure for grant at settlement on a NIS-adjusted basis (actually £1,914 million) and could be defended as such. Even though grants for England will be at the 1984-85 figure without NIS adjustment, and grant for Wales will be increased by 2% in cash, rate increases in Scotland seem likely to be below those in England and Wales. This follows a pattern of lower rate increases and higher overspending in Scotland in the last two years, compared with England and Wales. There seems no reason to supplement the unavoidable generosity of the increase in Scottish provision for expenditure with more than £1,915 million total grant from the taxpayer to finance it, when the Scottish ratepayer is still likely to fare better than his counterparts in England and Wales in terms of percentage increases in rates.

Yours sincerely

J St. Gieve

JOHN GIEVE

CONFIDENTIAL

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10 DOWNING STREET

From the Private Secretary

6 August 1984

RSG 1985-86: SCOTLAND

The Prime Minister has seen your Secretary of State's minute of 3 August and has noted that he accepts the terms of the RSG package agreed with colleagues. She has also noted his concern about the way the reduction in Aggregate Exchequer Grant may be received in Scotland.

I am copying this letter to Janet Lewis-Jones (Lord President's Office) and John Gieve (Chief Secretary's Office).

ANDREW TURNBULL

Eddie Gowans, Esq.,
Scottish Office.

CONFIDENTIAL

112/41

Treasury Chambers, Parliament Street, SW1P 3AG

J F Graham Esq
Private Secretary to the
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
LONDON SW1A 2AW

7 August 1984

Dear John,

attached (at last)!

SCOTTISH LOCAL AUTHORITY CURRENT EXPENDITURE 1985-86

After discussion of the proposals in your Secretary of State's letter of 20 July, the issues have been settled as follows:

(i) provision for Scottish local authority current expenditure will be increased by £97 million, subject to adjustment in the light of any marginal changes which may need to be made to the English figure of £822 million. Until the Secretary of State for the Environment is ready to announce an exact figure for England, the Scottish enhancement will be described as "about £95 million" in any announcement;

(ii) the allocated part of the increase in provision will be fixed now at £69 million;

(iii) guidelines for individual authorities will be set within the same ceiling (+4¼% on 1984-85 NIS-adjusted budgets) and floor (-1½%) as in England. Scottish Office officials will keep in touch with Treasury officials on the further detailed work that is needed on this;

(iv) unlike earlier years when grant abatement was not decided until after the start of the financial year, a tariff for grant penalties in 1985-86 has been agreed now. The penalty will be 90% of the overspending for the first 1% of overspending, 110% for 2%, 130% for 3% and 150% for 4% overspending. Beyond that point the presumption would be that, within the legal constraints, selective action would be more appropriate. While it would be inappropriate to announce details of penalties until next year, your Secretary of State will make it clear earlier, probably in a statement to local authorities in September, that penalties will be markedly more severe in 1985-86, so that authorities can plan accordingly;

(v) AEG at settlement will be a maximum of £1,915m. Your Secretary of State is aware that £1,914m could be defended as a cash standstill in grant, after adjustment for abolition of National Insurance Surcharge.

The Chief Secretary would be grateful if the terms of any announcement on these matters could be cleared with the Treasury in the usual way.

I am copying this letter to the Private Secretaries to the Prime Minister, the Lord President, other members of E(LA) and Sir Robert Armstrong.

Yours sincerely

JW. Gieve

JOHN GIEVE
Private Secretary

- 6 AUG 1984