024/109

C.C. Chancellor
Mr Bailey
Mr Anson
Mr Jameson
Mr Scholar
Mr Watson
Miss Rutter
Ms Spence
Mr Speedy
Mr Evershed
Mr Lord

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
London
SW1A 2AT

29 November 1984

Dear Willie

SCOTTISH LOCAL AUTHORITY EXPENDITURE 1985-86

Following E(LA)(84)7 and my subsequent agreement with Patrick Jenkin on English Aggregate Exchequer Grant I have been discussing with George Younger the implications for Scotland.

We have agreed that Scottish guidelines will be modified to allow a maximum 4½ per cent increase on 1984-85 budgets. The additional £1 million of local authority current provision required will be found from within the existing Scottish block provision. We have also agreed that Aggregate Exchequer Grant in 1985-86 will be revised to a new total of £1,924 million.

I am copying this letter to members of E(LA), John Selwyn Gummer and to Sir Robert Armstrong.

Yours ever Peter

PETER REES

CHIEF SECRETARY TO THE TREASURY

FROM: R J BROADBENT

DATE: 27 November 1984

MR JAMESON

cc Chancellor
Mr Bailey
Mr Anson
Mr Scholar
Mr Watson
Mr Pirie
Ms Rutter
Ms Spencer
Mr Speady
Mr Lord

SCOTTISH LOCAL AUTHORITY EXPENDITURE

This is to confirm, as I told you on the telephone, that the Chief Secretary and the Secretary of State for Scotland met after OD(HD) this afternoon and agreed on an addition of £19 million to the AEG figure agreed on 1 August. You agreed to clear with Scottish Office officials the terms of a letter from the Chief Secretary to the Lord President, as Chairman of E(LA), reporting this agreement.

2. You also agreed to provide later today a draft letter to the Secretary of State for Wales confirming an addition of £1.1 million to AEG for Wales consequent on the £30 million addition agreed in E(LA) for AEG in England.

RJ Broadbent

R J BROADBENT

019/109

cc Chancellor
Mr Bailey
Mr Anson
Mr Jameson
Mr Scholar
Mr Watson
Mr Pirie
Ms Rutter
Mr Evershed
Mr Speedy
Mr Lord

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon George Younger TD MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

26 November 1984

Dear Secretary of State,

1985-86 SCOTTISH LOCAL AUTHORITY AGGREGATE EXPENDITURE GRANT

Following our meeting on 22 November your officials and mine have been analysing the rates burden on Scottish ratepayers in the low spending regions and in Scotland as a whole. I believe that good progress has been made except in one area where I thought it would be useful to put my views in writing before our next meeting.

In your letter of 2 November you quoted Patrick Jenkin's E(LA) paper exemplifications as evidence that Scotland was facing unfair rate rises in 1985-86 when compared to England. In my reply I argued that the comparison of single year rate implications was misleading but at your insistence I have looked more closely at the figures.

First, the figures exemplified for E(LA) were local contribution figures, whereas the Scottish figure at that time of 4.6 per cent was for rate contributions only. Correcting for this officials have derived the following table based on increases from 1984-85 budgets to the 1985-86 effects on the two countries of the present agreed provision and grant for spending at Target/Guideline:

Rate and Local Contribution Changes Implied by the Summer Settlement (Scotland) and the Revised Settlement (England) in 1985-86

	Local Contribution	Rates
England	+ 0.5%	+2.8%
Scotland	+ 2.7%	+5.1%

These figures show changes from 1984-85 budgets to the consequences of spending at guideline/target in 1985-86.

The figures exclude any adjustment for water services (estimated as accounting for a 0.6 per cent gap).

However, these figures make no allowance for the fact that in England authorities budget for grant holdback in the year in which it occurs, but this is not the case in Scotland. Thus the Scottish local contribution in 1984-85 appears lower than it will ultimately turn out to be once grant penalties take effect. Consequently these figures show an artificially sharp rise in the local contribution between the two years in question.

You may of course argue that authorities will respond to the penalty by reducing spending. I hope they do. In fact, in the most optimistic case where they make a full cut the effect will be for them to obtain grant repayments in 1985-86 not only reducing the local contribution but also enabling them on average to make a small rates cut.

The actual percentage change in rates in 1985-86 will depend on the reductions achieved by the authorities, and so the amount of grant restored to them. The table below sets out on an illustrative basis estimates by Treasury officials of the range of possible outcomes:

	Scotland	
	% increase Local Contribution	% increase in Rates
(a) Assuming no expenditure cuts in response to penalties	- 3.0	+5.1
(b) Assuming £45m cuts and £45m grant restored in 1985-86	- 3.1	+2.1
(c) Assuming £90m cuts and £90m grant restored in 1985-86	- 3.0	-0.7

I am bound to conclude from these figures that to give you additional grant on the grounds of average rate rises would simply be to insul ate your authorities from some of the effects of the grant penalty system and I cannot agree to that.

We also agreed at our meeting that officials should produce definitive figures for rate increases in low spending Scottish regions compared with those projected for low spending English counties. The attached table which I understand has been agreed between our officials, gives this comparison excluding the special effects in Scotland of the rating revaluation and taking into account late revisions I gather you have found it necessary to make to your figures.

I am copying this letter to members of E(LA), John Selwyn Gummer and to Sir Robert Armstrong

Yours Sincerely

Paul Pegler

P PETER REES

(approved by the Chief Secretary and signed in his absence)

OVERALL RATE INCREASES FOR LOW SPENDING* REGIONS/COUNTIES
IMPLIED BT THE 1985-86 SETTLEMENT ALONE+

ENGLAND	Summer Settlements	E(LA) Revisions
Berkshire	11.9	9.9
Dorset	8.0	5.8
East Sussex	9.7	7.2
Gloucestershire	9.3	7.1
Hampshire	9.8	7.6
Leicester	9.8	7.3
Norfolk	7.5	4.4
North Yorkshire	10.4	8.9
Oxfordshire	10.6	9.1
Suffolk	9.0	7.0
Wiltshire	10.9	8.4
Average	9.7	7.5

SCOTLAND	No Redistribution	Maximum Progress
Borders	18	12
Dumfries	15	9
Grampian	13	9
Average		10

* defined as at or below Target/Guideline in 1984/85

+ excludes effects of revaluation, assumes spending at Target/Guideline in 1985/86

Option C of Secretary of State's consultation paper on progress to Client Group Assessment distribution.

cc: Chancellor
Mr Bailey
Mr Anson
Mr Jameson
Mr Scholar
Mr Watson
Ms Rutter
Ms Spencer
Mr Pirie
Mr Evershed

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Mr Speedy
Mr Lord

Rt Hon George Younger TD MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

16 November 1984

Dear George

SCOTTISH LOCAL AUTHORITY EXPENDITURE

Thank you for your letter of 2 November in which you raise again certain aspects of the Scottish Local Authority package agreed in the summer.

As you know, we accepted in the summer a full formula consequence of the increase in English provision, despite the fact that this gave the majority of Scottish authorities more generous guidelines than their English counterparts. In return for this you accepted, however reluctantly, tougher grant and penalty arrrangements in order to minimise any risk of overspending. You now ask me to agree to leave your authorities with the generous provision while weakening the constraints encouraging them to keep within it. I cannot accept that.

Turning to your detailed arguments I must first discount the points on Scottish revaluation. This is an alteration in the distribution of the rates burden in Scotland arrived at after a fair and independent review. Its conclusions suggest that the domestic rate payer north of the border has been doing very well at the expense of industry and commerce. The revaluation simply redresses this injustice. I cannot accept that the national taxpayer should step in to subsidise them instead by increasing grant. If you do not want the full effects of the revaluation to come through in the first year you should take transitional measures to cushion the effect - recognising that this inevitably means delaying some of the benefits to the gainers - within the agreed grant total. Domestic rate relief is one tool available. You could also reduce the level of industrial derating. In fact, using both these devices it would be possible for you significantly to ease the transition to a more equitable rates burden without any increase in aggregate grant. For example, I understand that if you were to increase domestic rate relief to 5p and reduce industrial derating to 40%, then the average domestic rate rise from revaluation would fall to 9 per cent while still leaving industry the first year benefit of a 9 per cent decrease.

On the position of co-operative, low spending, authorities, you will be aware of the outcome of our E(LA) deliberations. In England we have agreed an increase of £30m (or 0.25 per cent) in grant to bring the implied increased in local contributions for spending at target down to a maximum of 9.9 per cent for these authorities. Most of this is achieved by redistributing grant between authorities. The effect of that change is to hold the "grant percentage" at 48.7 per cent, compared to 48.8 per cent in the summer. Your proposal would increase the grant percentage in Scotland from 56 per cent in July to 58.3 per cent.

In Scotland the three regions spending at or below guideline and client group assessment are Borders, Dumfries and Galloway, and Grampian. I understand that you could also do much to help these authorities by moving faster towards distribution on the basis of client group assessment. In the annex I have set out the best available estimates of the rate increases in these regions assuming no change (column a), some progress (column b) and maximum progress (column c). You will see that maximum progress brings these three regions into approximately the same position as the worst case English shire.

Furthermore, to make a true comparison I should have to adjust these figures for water services. The Scottish regions provide sewerage and some other water services (excluding domestic supply). In England these are provided by Regional Water Authorities. In the recently concluded nationalised industries investment and financing review external finance limits and investment levels were set on the basis that domestic water charges might have to rise by up to 12 per cent on average. Allowing for this I would expect rate rises in Scotland to be some 0.6 per cent higher.

You also refer to the average implied rate rise in Scotland compared to that in England. It is highly misleading to look at one year in isolation in this way. In the last three years Scotland has enjoyed comparatively low rate rises. We certainly do not expect the consequence of settlements to be identical rate rises in the various countries . The point in my Private Secretary's letter was merely that the general pressure from a much lower grant figure would not be unreasonable in view of the tough line with the English shires.

On targets I would be prepared to consider any technical adjustments you might propose within your existing provision for the Scottish block, as has been done for England. There is no PES increase in England to which to apply the formula. Since I understand your guidelines for authorities have again been based on "revalued" rather than actual budgets, there can be no direct read-through from the maximum increase allowed in England to that in Scotland.

Copies of this letter go to other members of E(LA), John Selwyn Gummer and Sir Robert Armstrong.

Yours ever Peter

PETER REES

ANNEX

RATE INCREASES IMPLIED BY SETTLEMENT

Region	No Change	Some Progress	Maximum Progress
Borders	10.5	6.5	4.6
Dumfries and Galloway	15.0	10.3	9.2
Grampian	13.0	11.8	10.0

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CHIEF SECRETARY
REC - 2 NOV 1984
ACTION Mr Pirie
COPIES TO PPS, Mr Bailey
Mr Jameson, Mr Scholar
Mr Lovell, Mrs Kelley
Mr Walker, Mr McWilliams.
Miss Rutter
Mr Lord
Mr C Allan, Mr Culpin
Mr Norton.

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

2 November 1984

Dear Chief Secretary

SCOTTISH LOCAL AUTHORITY EXPENDITURE 1985-86

1. I have read with interest Patrick Jenkin's memorandum on Rate Support Grant Distribution 1985-86 (E(LA)(84)15) which is to be discussed on Monday 5 November. I would like to raise with you certain aspects of the Scottish grant settlement for next year which arise from Patrick's paper and from information which has become available since July.

2. We have in Scotland authorities in exactly the same position as the shire counties referred to in paragraph 3 of Patrick's paper. They are cooperative, largely rural, authorities spending at their guidelines. When AEG is cut they cannot reduce the effect on their rates by reducing their expenditure towards guidelines. They have to pass the full effect onto the ratepayer who finds his rates going up by more than inflation although his authority is cooperating with Government policy. It is not realistic for these authorities to consider spending below guideline since their guidelines are already below their client group assessments of need. I have had strong representations from these authorities about the injustice of their position and I find it hard to give them a good answer. The only way I can do something to help them is if I have more AEG to enable a swifter movement towards the grant distribution system based on the client group approach from which these authorities stand to benefit. They have pressed hard for this. At present, with a reduced grant figure of £1915m for 1985-86 it is impossible for me to move in this way without massive increases in the rates of the other authorities who would have to lose grant for this purpose. I am thus in the same position as Patrick Jenkin on this and support him strongly in his request for additional grant.

3. As you may remember, when we discussed the Scottish AEG figure for 1985-86 in July you were insistent that our AEG figure should be lower than in 1984-85 although the English figure was frozen and the Welsh figure increased. The basis of your view, as recorded in your Private Secretary's letter of 25 July was that: "A grant of say £1840 million would lead to rate increases of only 7% or so for spending in line with provision. This would be comparable with the implications of the RSG settlement for English authorities". The figures in Table 1 of Patrick Jenkin's E(LA) paper show, however, that for spending at provision with a frozen grant English rates will in fact go down by 0.2%, not up by 7%. The decrease would be 1.4% if AEG were increased by £150 million as

he proposes. In the light of this information, it appears that it is essential to reconsider what the Scottish AEG figure should be if there is to be equity for the ratepayers in the two countries. The need for strict attention to equity is increased by the problems arising from the Scottish revaluation next year, a factor of which I warned you during our discussions in the summer.

4. In Scotland we have, as you know, gone ahead with a full revaluation. This is in keeping with the well understood principle that if the valuation system is to work, the roll must be regularly reviewed. By going ahead we have avoided many valid criticisms, such as those advanced by the Audit Commission in England, of the folly of trying to manage a grant system based on out of date valuations. I now have preliminary estimates from Assessors of the effects of the Scottish revaluation. The most striking feature is the large shift of the rating burden towards domestic subjects. This means that if expenditure and grant stay unchanged at their 1984/85 level, domestic rate bills would go up by 16.6% for revaluation alone. Of course expenditure will go up to meet inflation and grant is to come down in cash terms. A realistic estimate of the effect of these two factors is an 8% increase in rates. The total result for domestic rates - an average increase of 25% - is really quite unacceptable. It is higher still in the cooperative authorities I referred to earlier where domestic ratepayers would on average see increases of approaching 30%. Already the public pressure for action is building up as these figures become known.

5. While you may suggest tackling this problem by increasing domestic rate relief, the scope for this is severely limited by the fact that I have to work within a reduced grant figure. Anything I do in that way will be at the expense of industrial and commercial ratepayers who will justifiably complain that I am cancelling the benefits of the revaluation. I make no apology for quoting from my minute of 1 August to the Prime Minister in which I very reluctantly accepted the reduced AEG figure:

> "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".

6. I am afraid that the situation I foresaw is coming about and it is necessary to take action rapidly to prevent it getting worse. I propose that in the light of the fresh information I set out in this letter that Scottish AEG for 1985-86 be increased by £94 million. This is the figure necessary to put Scottish ratepayers in the same position as English in the event of an addition of £150 million to English AEG. An addition of £94 million would allow an average decrease of 1.4% in rates for spending at provision, the basis on which you approached the assessment of the Scottish AEG figure in July. With this addition I would be able to increase the domestic element and head off the serious political problems emerging as a result of revaluation with politically unacceptable increases in domestic rates. I would also be able to do something useful for those cooperative authorities whose rates are set to go up above the rate of inflation despite spending at guideline.

7. Patrick's letter of 25 October to you sought authority to make some limited adjustments to his targets. I very much support him and trust that you will agree that I should be allowed to make comparable adjustments to guidelines in Scotland.

I am copying this letter to members of E(LA), John Selwyn Gummer and to Sir Robert Armstrong.

Yours sincerely

E S Gowans

E S GOWANS
Private Secretary
(Approved by the Secretary of State
and signed in his absence)