



Treasury Chambers, Parliament Street, SW1P 3AG

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

29 May 1981

Dear George

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LOCAL GOVERNMENT FINANCE

Thank you for sending me a copy of your minute of 28 May to the Prime Minister, about the action you propose to take to reduce rate support grant in Scotland.

We agreed at E last week that we should devise an approach for Scottish local authorities consistent with that adopted by Michael Heseltine for English local authorities. I understand that our officials have been unable to agree upon a policy which both sides felt would impose commensurate penalties. I am afraid that I too find your proposed response weaker than the very poor expenditure prospect in Scotland warrants. The requirement is for action in line with that Michael Heseltine will be taking, not only because of the need to get Scottish local authorities to take our public expenditure plans seriously, but also because it would seriously risk undermining Michael's stance in England.

What I propose is very much in line with the Treasury views stated in E(81)55. The £450 million cut in grant agreed for English RSG is approximately equal to the expected outturn excess expenditure, at November 1980 prices. So I think the right size of RSG reduction in respect of Scottish overspending would be about £140 million (in line with the estimated outturn quoted in E(81)55).

Nor do I think we can overlook overspending by Scottish local authorities in 1980-81. We can be fairly certain that they exceeded the White Paper plans by at least £80 million at 1980 Survey prices and this would indicate an RSG cut of about £60 million if your action is to be commensurate with that taken in England and Wales.

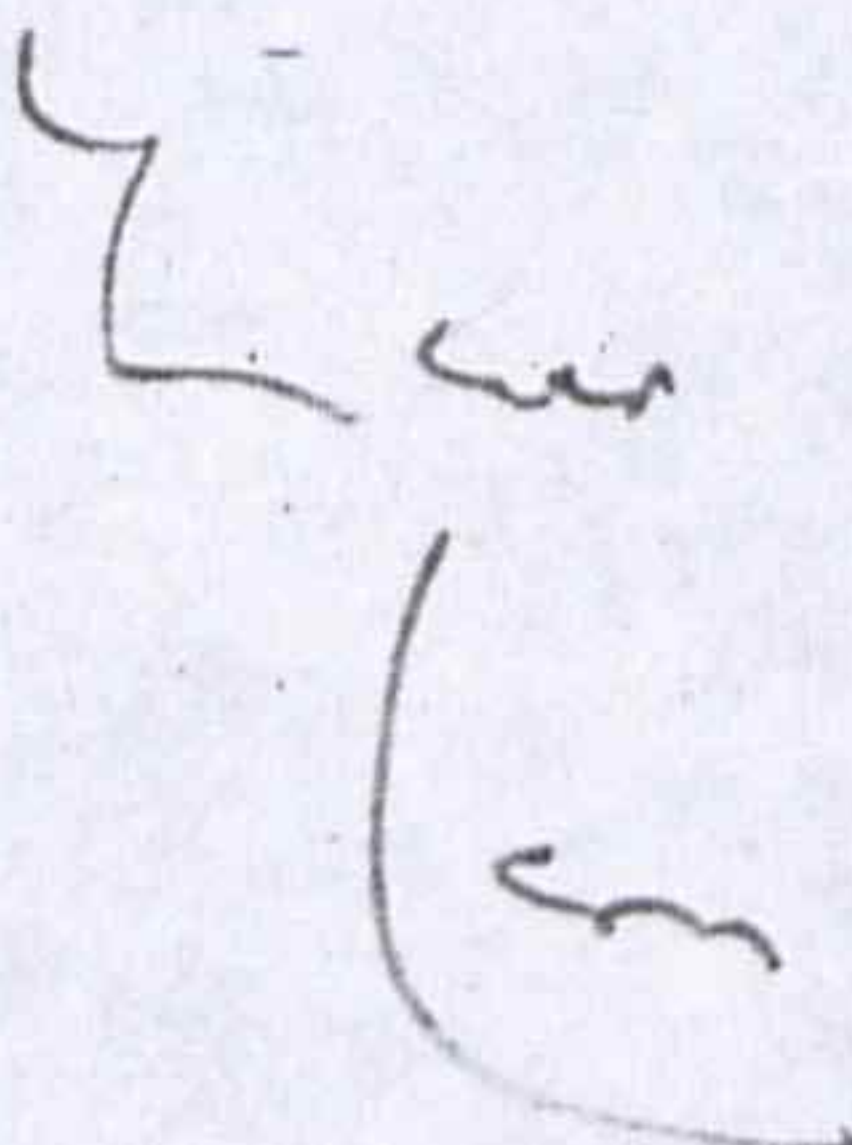
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To sum up, I propose that an overall reduction of some £200 million would be appropriate if Scottish local authorities do not moderate their spending plans. I appreciate that it may not be possible to exact all of this selectively, or even in 1981-82. As much of this penalty as cannot be imposed selectively should be obtained by a general reduction in RSG, and the rest should be deducted from the grant settlement for 1982-83 to be announced in the Autumn.

It seems to me that failure to take this or equivalent action would court ever increasing defiance from Scottish local authorities, many of whom are already behaving as if they have nothing to fear if they overspend. We must demonstrate that that is not the case.

I should welcome an opportunity to discuss this with you and Michael Heseltine, as we agreed at E last week. In the meantime, I must ask that you do not make any public statement until we have had a chance to agree an appropriate action in Scotland.

I am copying this to the Prime Minister and Michael Heseltine and to Sir Robert Armstrong.


LEON BRITTAN