



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

g/c sv

Prime Minister (1)

CONFIDENTIAL

The Rt Hon Leon Brittan QC MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON SW1

CF

(1) Tow  
Mr Younger's

I understand Mr Younger  
feels that the Treasury have  
driven a very hard bargain.

27 July 1982

office

(2) PA

Agree this statement  
tomorrow?

Dear Leon,

Yes not

rus 27/7

RATE SUPPORT GRANT SETTLEMENT 1983-84: GRANT REDUCTIONS 1982-83

At our meeting yesterday we provisionally agreed the main features of the statement on these subjects which I am due to make on Wednesday 28 July. Our agreement was subject to further consideration of your proposal that I should introduce in Scotland in 1983-84 something similar to the arrangement agreed for England under which part of the extra provision to be made in the interests of realism will be withheld from provision for individual services and form the basis of a two-tier system of guidelines to individual authorities.

As was made clear at yesterday's meeting, this last minute proposal puts me in a difficulty. Because of the difference between the English and Scottish systems, it will be very difficult for me to explain or justify, and I shall be accused of applying English measures of no relevance to the Scottish arrangements. Nevertheless, I must make a statement tomorrow, so I reluctantly agree that, of the total by which provision in Cmnd 8494 is enhanced, £100 million should not be allocated to individual services in the next White Paper. I also agree that this new arrangement will need to be taken into account before we issue current expenditure guidelines, possibly leading to a 2-tier guideline system similar to GREs and targets in England. Neither tier would however affect distribution of the needs element of grant since, under the Scottish system, that is done by applying a demographic formula directly to grant. I could not commit myself to any particular form of 2-tier guideline system without further consideration and I suggest that we ask officials to examine the possibilities and let us have a report before we reach a decision.



My other proposals are:

1983-84 Relevant Expenditure

The Scottish block should be enhanced by £106 million representing, in accordance with the territorial formula, 10/85ths of the amount (£900 million) by which relevant expenditure in England is to be enhanced. I see a strong case for enhancing the figure used in the settlement by £138 million to give the same percentage target reduction from 1982-83 budgets as in England. You said that provided we could agree on arrangements to avoid full commitment of the enhancement figure (the point dealt with in the foregoing paragraph) you would not object if I increased the figure used in the settlement by up to £138 million on the basis that anything beyond £106 million would be found from within the block. A final decision on the figure to be incorporated in the settlement will need to be deferred until later in the year. Meantime I propose to indicate in my statement on Wednesday that the provisional figure is £2,635 million implying enhancement by £120 million.

1983-84 Grant

I endorse the figure of £1,925 million provisionally agreed at your meeting on 27 July with Allan Stewart.

1982-83 Grant Reductions

With great reluctance I agreed to make a general abatement of grant of £27 million in addition to the selective action already taken against Lothian Regional Council and Stirling District Council. I am afraid that I regard this as a most unsatisfactory outcome liable to cause us considerable political difficulties in Scotland. As was recognised on all sides during our recent discussions of the measures to be adopted in England, general abatements are inequitable and counter-productive in provoking opposition to Government policy by authorities as a whole. In addition, I remain strongly of the view that rate reduction should be counted as equivalent to grant reductions in computing the total penalty. In later years I shall feel free to pursue the argument on both points. In the meantime I accept your figure of £27 million for 1982-83.

I enclose a draft of the statement which I propose to make on these matters. Since time is now very short I must ask for any comments by 10am on Wednesday.

I am sending copies to the Prime Minister, the members of E Committee, Nicholas Edwards and to Sir Robert Armstrong.

*Wansley,*  
*George.*



RATE SUPPORT GRANT SETTLEMENT (SCOTLAND) 1983-84: DRAFT STATEMENT

With permission, Mr Speaker, I will make an announcement about the Rate Support Grant settlement for Scotland for 1983-84. I will also refer briefly to 1982-83.

Local authorities budget estimates for 1982-83 are more than £200 million higher than was proposed in the Rate Support Grant Settlement and I have already indicated to the Convention that authorities will have to restrict their expenditure to something nearer to what the country and their ratepayers can afford.

I have initiated selective action against Lothian Regional Council and Stirling District Council. Lothian have proposed an expenditure reduction of £30.7 million commensurate with the very welcome cut of 16p in the rate poundage already implemented. In the light of this proposal I do not propose to proceed with selective reduction in grant payable to Lothian. On 22 July the House approved my proposal to reduce grant payable to Stirling District Council by £1.2 million.

As I do not propose to set in hand further selective action, this still leaves about £170 million of excessive spending which cannot simply be ignored and I therefore have no option but to make a general abatement to cover at least a part of this overspending. I have however decided to limit this to £27 million which amounts to <sup>only</sup> /about 16% of the total, <sup>overspend</sup> and is no greater than the general abatement which I had to impose last year.

I shall bring an Order before the House about Christmas with proposals for the Rate Support Grant Settlement for 1983-84. The proposals will take into account the need for reductions in the present level of current expenditure by local authorities. To enable authorities to plan expenditure accordingly in good time I am making this statement now. My hon Friend, the Minister for Home Affairs and the Environment, will be meeting the Convention of Scottish Local Authorities on 29 July.



The figure which I propose provisionally as the public expenditure provision for local authority current expenditure in 1983-84 is £2,635 million. That is £120 million more than provision in the Public Expenditure White Paper Cmnd 8494. After considering the views of the Convention as expressed to me in preliminary consultations I have concluded that this increase should be made. It will not be fully allocated to provision for individual services: £100 million will be treated as an undifferentiated addition made solely because authorities need more time to bring spending into line with the Government's plans, and I shall take this into account before deciding the basis of current expenditure guideline for 1983-84.

The total of relevant expenditure for the Rate Support Grant settlement will be derived from the figure of £2,635 million in the normal way by the addition of non-current expenditure (including loan charges and capital financed from revenue).

I would propose aggregate Exchequer Grant of £1,925 million but I must make clear that this will be liable to reduction if authorities budget for expenditure significantly above Government's planning figure. That represents a cash increase of 3.5% over the 1982-83 grant figure.

If authorities budget for expenditure in line with the Government's planning figure, it should be possible to keep rate increases next year very low.

I will be consulting the Convention on these proposals in more detail before presenting the rate support grant order to Parliament in the usual way.



1927-1991 1982





## Local Government Expenditure (Scotland)

4.23 pm

**The Secretary of State for Scotland (Mr. George Younger):** With permission, Mr. Speaker, I shall make an announcement about the rate support grant settlement for Scotland for 1983-84. I shall also refer briefly to 1982-83.

Local authorities' budget estimates for 1982-83 are more than £200 million higher than was proposed in the rate support grant settlement, and I have already indicated to the convention that authorities will have to restrict their expenditure to something nearer to what the country and their ratepayers can afford.

I have initiated selective action against Lothian regional council and Stirling district council. Lothian has proposed an expenditure reduction of £30.7 million commensurate with the very welcome cut of 16p in the rate poundage already implemented by it. In the light of this proposal, I do not propose to proceed with selective reduction in grant payable to Lothian. On 22 July the House approved my proposal to reduce grant payable to Stirling district council by £1.2 million.

As I do not propose to set in hand further selective action, this still leaves about £170 million of excessive spending which cannot simply be ignored and I therefore have no option but to make a general abatement to cover at least a part of this overspending. I have, however, decided to limit this to £27 million, which amounts to only about 16 per cent. of the total overspend, and is no greater than the general abatement that I had to impose last year.

I shall bring an order before the House about Christmas with proposals for the rate support grant settlement for 1983-84. The proposals will take into account the need for reductions in the present level of current expenditure by local authorities. To enable authorities to plan expenditure accordingly in good time I am making this statement now. The Minister with responsibility for home affairs and the environment will be meeting the Convention of Scottish Local Authorities on 29 July.

The figure which I propose provisionally as the public expenditure provision for local authority current expenditure in 1983-84 is £2,635 million. That is £120 million more than provision in the public expenditure White Paper (Cmnd. 8494). After considering the views of the convention as expressed to me in preliminary consultations, I have concluded that this increase should be made. It will not be fully allocated to provision for individual services: £100 million will be treated as an undifferentiated addition made solely because authorities need more time to bring spending into line with the Government's plans, and I shall take this into account before deciding the basis of current expenditure guidelines for 1983-84.

The total of relevant expenditure for the rate support grant settlement will be derived from the figure of £2,635 million in the normal way by the addition of non-current expenditure, including loan charges and capital financed from revenue.

I propose aggregate Exchequer grant of £1,925 million, giving a rate of grant of some 61½ per cent. But I must make it clear that this will be liable to reduction if authorities budget for expenditure significantly above the Government's planning figure. This figure of £1,925



[*Mr. George Younger*]

million represents a cash increase of 3.5 per cent. over the 1982-83 grant figure. If authorities budget for expenditure in line with the Government's planning figure, it should be possible to keep rate increases next year very low. I shall be consulting the convention on these proposals in more detail before presenting the rate support grant order to Parliament in the usual way.

**Mr. Bruce Millan** (Glasgow, Craigton): Is the right hon. Gentleman aware that this is another sad and depressing statement about local government, and that it is not inappropriate that it should be made on the same day that another extremely depressing statement has been presented to the House? For 1982-83 we have reached the absurd position that the Government's so-called guidelines have been offended by 56 of the 65 local authorities in Scotland. Action, however, is being taken only against Stirling while a general penalty is being imposed on the other authorities.

It is even more absurd that Lothian region's expenditure, which has been reduced by £30 million, will still be more than 12 per cent. above the Government's guidelines, although we have been told by Lothian Tories and the Secretary of State that the guidelines are perfectly easy for any local authority with good will to meet. I repeat that Lothian will still be 12 per cent. above the guidelines while the Scottish average is about 8 per cent. above them. The business of guidelines is an utter farce and the sooner the right hon. Gentleman abandons attempts to dragoon local authorities in Scotland the better.

Consultations have been non-existent. It is farcical to meet the local authorities tomorrow at extremely short notice. I inquired of COSLA yesterday and apparently it was only yesterday that the meeting was arranged. All the major decisions about expenditure and grant have been taken. What is the purpose of the negotiations tomorrow? Is it intended merely to convey the bad news to local authorities and not to enter into any genuine discussions with them?

Is the right hon. Gentleman aware that the usual presentation for 1983-84, with cash figures confused with real figures, does not obscure the fact that the new figure of relevant expenditure for 1983-84 of £2,635 million is only about £15 million more than the adjusted budgets for the current year 1982-83? As the 1983-84 figure is in cash terms, there will have to be a reduction in real expenditure by Scottish local authorities of between 6 and 7 per cent. in 1983-84 to reach the relevant expenditure figures? The Secretary of State knows that he has no hope of getting that sort of reduction, and that even if it took place it would be at the expense of a drastic curtailment of basic local authority services.

Is the Secretary of State also aware that he has added insult to injury by a further 2.7 per cent. reduction in the rate of Exchequer grant, so that during the past three years the rate of grant will have fallen from 68½ per cent.—the figure that he inherited—to only 61½ per cent? The burden of that falls on the ratepayers, for whom the Secretary of State always expresses such deep and artificial concern. The net result of the settlement—that is what it is, because there are no real negotiations—will be to add to the difficulties and burdens of local authorities and ratepayers





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9/5/82  
Prime Minister

(2) Local Govt

A long way from agreement

23 July 1982 MUs 23/7

CONFIDENTIAL

The Rt Hon Leon Brittan QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

Dear Chief Secretary,

1. LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83: GRANT REDUCTIONS
2. RATE SUPPORT GRANT SETTLEMENT 1983-84: PROVISIONAL PROPOSALS

Allan Stewart has reported to me the outcome of the meeting you and he had on 22 July. I am sorry that I was prevented by indisposition from meeting you myself.

Before dealing with the outstanding issues I should make two general points.

First, I understand that you were unhappy because Allan Stewart thought it necessary to reserve my position on certain points. I had to ask him to take the meeting on my behalf at very short notice. I would have been content for him to reach finality if he had judged that your proposals would have been acceptable to me. He was absolutely right in his judgement that your proposals on two important points would not have been acceptable. Failure to make progress was due to the nature of your proposals rather than to any inhibition placed on Allan's freedom to negotiate. I hope in the circumstances you will accept that it was right for the meeting to proceed.

Second, as regards grant reductions in 1982-83 I accept that you have a clear interest in the amount of the total grant penalty even if you and I do not yet agree on the size of the penalty. I am very willing to consider your views on the division of the agreed total between selective action and general abatement but the decisions in relation to individual authorities which turn on reasoned judgement on individual cases in the light of statutory requirements, are mine and must remain so.

The major difference between us relates to grant reductions in response to the 1982-83 budgets. In England, the differential grant penalty proposed at present represents in round terms some 25% of the expenditure



excess. There are no plans for general abatement. Our colleagues in E had strong objection to general abatement on grounds of equity and the effect on our supporters. The arguments in Scotland are every bit as strong as in England and I do hope we can avoid general abatement here.

I think it is wholly unreasonable to suggest that we should not count rate reductions as equivalent to grant reductions. It would seem sheer madness to those who have wrested precarious control of Lothian Region from Labour. More generally, I have introduced and defended the provision for rate reductions in the Local Government (Miscellaneous Provisions) (Scotland) Act 1981 and the further provision in the current Bill on that basis. You cannot reasonably expect me to go back on that now. I must insist on further collective discussion if you maintain your view that the grant penalty should be calculated on the basis of a revised expenditure excess after deduction of the savings produced by rate reduction.

Turning to 1983-84, I understand that you would be content for the Scottish expenditure block to be enhanced by £107m, the amount produced by applying the territorial formula to the enhancement figure agreed for England. You would not object if I chose to enhance provision for relevant current expenditure by a higher amount in order to give Scottish local authorities a similar target reduction from year to year to that proposed for English authorities. I understand that you would be prepared to fix the grant quantum at £1,925m.

Your approach to relevant expenditure causes me considerable difficulty because at present I see no scope within the block for transfers to local authority current expenditure. I should be severely criticised for setting Scottish local authorities more stringent expenditure targets than those proposed for English authorities. I want to discuss this point further with you but, subject to that I believe that we should be able to agree quickly at least on the reference to the 1983-84 settlement to be included in any early statement.

Time is now very short if a statement is to be made on Wednesday and the press exposure of what Michael Heseltine may be telling his Consultative Council on Tuesday adds to the pressure on me from Scottish authorities. We must discuss the outstanding issues as soon as possible. My office is in touch with yours about arrangements for a meeting.

I am sending copies of this letter to the Prime Minister, the Members of E Committee, Nick Edwards and to Sir Robert Armstrong.

*Yours sincerely*

*A. S. W. D.*

Approved by the Secretary of State  
and signed in his absence





Handwritten red ink markings, including a date stamp and a circular postmark.

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CONFIDENTIAL

The Rt Hon Leon Brittan QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
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SW1P 3AG

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

*Prime Minister*

*MCS 19/7*

*19 July 1982*

*Dear Chief Secretary*

RATE SUPPORT GRANT (RSG) SETTLEMENT 1983-84

1. We are to discuss at E Committee on 20 July the proposals for the 1983-84 rate support grant settlement in England set out in E(82)59.
2. These proposals are very detailed and there is insufficient time for me to circulate corresponding proposals for Scotland before the meeting. If colleagues agree, I suggest that I should discuss with you bilaterally the arrangements for the Scottish settlement in the light of the decisions reached on Tuesday about the English settlement. Any major difference of view which we could not resolve would have to be brought back to the Committee.
3. I thought however that it would be helpful for me to circulate in advance a note of my views on two important features common to both settlements.
4. I am glad to note that Michael Heseltine considers it essential that we should enhance the provision made for local authority current expenditure in Cmd 8494. We must continue to press authorities to make substantial reductions in expenditure levels as rapidly as possible. But no purpose is served by publication of unrealistic figures. I believe we are more likely to maintain public support if we set realistic targets and take decisive action against authorities which act irresponsibly. That was the basis of the successful action which I have taken in both 1981-82 and 1982-83 against Lothian Regional Council.
5. An important issue in our bilateral discussions will be how to calculate the Scottish equivalent of the measure of enhancement agreed for England. Use of the territorial formula would produce a figure implying a significantly more severe target reduction from expenditure levels in the current year for Scottish authorities. I see no basis on which that course could be justified. I hope therefore that you will be able to agree that the right course is to set Scottish authorities a similar reduction from current levels of expenditure to that proposed for authorities in England.
6. Although broadly in agreement with Michael Heseltine's proposals for enhancement I have strong reservations about his approach to aggregate grant. He proposes a substantial cut, of 2.9 percentage points, in the rate of grant in England. I believe



that we would be heavily criticised for this further shift in the balance between central and local taxation which would be represented as inconsistent with the concern repeatedly expressed by the Government over rate levels. I believe that there will be widespread disappointment over our inability, which must be publicly acknowledged in the near future, to find an acceptable alternative to domestic rates. In the meantime there is considerable resentment among ratepayers in all sectors over rate levels and considerable apprehension about the prospect of further increases. We should pay particular attention to the views increasingly expressed by industry and commerce that the increasing rates burden constitutes a severe impediment to industrial and commercial recovery.

7. I am in no doubt that any significant increase in rate levels will be attributed to us, not to local authorities, if we make a significant cut in the grant percentage. I do not think we need make an early announcement about the grant quantum and I believe that we would stand a better chance of getting the figure right if we postponed a decision until later in the year when it will be possible to make firmer forecasts of expenditure levels in 1983-84. I shall develop the case for delaying a decision in the course of Tuesday's meeting.

8. Copies of this letter go to the Prime Minister, other members of E Committee, the Secretary of State for Wales and Sir Robert Armstrong.

*For use*  
*Alfred Kennedy*

Approved by the Secretary of State  
and signed in his absence