



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
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20 July 1984

Your Chief Secretary

SCOTTISH LOCAL AUTHORITY EXPENDITURE 1985-86

As you know, on Tuesday 17 July I announced the abatement of rate support grant for Scottish local authorities for 1984-85. As I predicted, the level of the abatement has raised a storm among Scottish local authorities and has severely undermined our relations with them. It is against this background that I am now responding to the invitation from E(LA) to circulate my proposals for Scottish local authority expenditure in 1985-86. I would of course be glad to discuss these proposals with you and to explain to you more fully the real difficulties which are being created in Scotland by the very severe penalties we are imposing on authorities.

English local authority expenditure in 1985-86 is to be increased by £822 million. Since this represents an addition to comparable programmes in England, the formula applies and £97 million falls to be added to Scottish local authority expenditure in 1985-86. I understand that of the English enhancement of £822 million, £200 million is to be added to the unallocated margin, the remaining £622 million being allocated to services. Applying the same proportions, this gives an addition to the Scottish unallocated margin of £24 million, leaving £73 million to be allocated to services. I would be grateful for agreement to my announcing these figures before the House rises.

I appreciate of course that the English enhancement is part of a package of measures designed to achieve real reductions in local authority expenditure. I will ensure that my enhancement is seen as linked to measures designed to achieve the same result. But the Scottish system is different; and we must avoid the appearance of applying cuts and penalties which are not appropriate to it. It is the results which matter.

The policies which I have pursued for grant and expenditure control have met with considerable success. For both 1981-82 and 1982-83 I was faced with high budgeted overspends above 8%. I used my selective action powers in both of those years and this was reflected in significant falls to just over 5% at outturn

in both of those years and also in 1983-84 a much lower budgeted overspend of 4.6%. I again used my selective action powers in that year and this, coupled with a grant penalty of £45 million, brought the provisional excess at outturn down to 2.7%. For 1984-85, authorities are planning to spend above their guidelines by 4.2%. While this is not as much of an improvement as I had hoped, the figures are moving in the right direction and I would expect to see again this year significant improvement at outturn. I might add that the initial reaction of authorities in Scotland to the level of abatement has, as I feared, been that it is so high as to make it unattainable and therefore they are not going to try. While I believe that this reaction will mellow a little, it does underline the law of diminishing returns which can operate in dealings with local government as much as elsewhere. Be that as it may on a comparable basis the budgeted overspend by Scottish local authorities is slightly less than that of English local authorities.

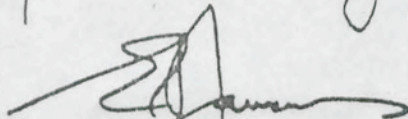
Selective action, operated under the separate Scottish legislation, has been able to deliver total savings of £80 million since I first used it in 1981-82. The Scottish legislation does not enable me to make decisions on selective action until after I have looked at the budgets of all authorities. Thus I will take decisions on selective action for 1985-86 in April 1985. While it is impossible for me to announce now that I will take selective action against particular authorities in 1985-86, authorities know that I will not hesitate to use the powers next year if any authorities appear to be planning excessive and unreasonable expenditure.

In my view, the most significant determinant of local authority expenditure is the amount of rate support grant. The figure for this is announced before authorities reach their decisions on rates and since it directly affects the level of rates which need to be charged for given levels of expenditure, it has a real influence on the expenditure planned by authorities. I am therefore prepared to freeze the level of aggregate Exchequer grant in Scotland for 1985-86 at its 1984-85 level before abatement. This would be seen as, and operate as, a very severe restraint on authorities. In 1984-85 Scottish grant scarcely went up at all (by only 0.2% in cash). A grant freeze in 1985-86 would mean that in cash Scottish grant would scarcely have increased for 2 years. Such a freeze would be a very clear message, and I have to recognise that because there will be special pressures arising from the general revaluation of property; in Scotland in 1985. There are already signs that this revaluation will change the relativities between areas and between types of property and if grant had been reduced in cash terms for whatever reason, it would be possible to blame the Government for all the increases in rates that will undoubtedly follow from the revaluation.

It is very important to issue my current expenditure guidelines in September. The starting point for the calculation of the guidelines are the client group assessments which in their turn are based on the total of relevant expenditure. I will not know the details of the guidelines until these calculations, on the basis of the enhanced levels of expenditure, have been carried out. I would however propose, having regard to what is proposed for England, and Wales that the guidelines should continue to be based on the client group assessments for 1985-86, subject to no authority receiving a guideline higher than 4.75% above their 1984-85 NIS adjusted budget. Once we have carried out the calculations, my officials will be in touch about the details of the guidelines.

The urgent issues are to settle the enhancement, the unallocated margin and the AEG. But there are wider issues about my relations with local authorities which I want to discuss with you. It is essential that I do not present the Scottish authorities with diktats which will unite them against me. I am not sure that you fully appreciate this problem and I want to talk to you about it before the Recess is over.

I am copying this letter to the Lord President and the other members of E(LA).

James Amery


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

Local cut defects



23 AUG 1994

Heavenly!

With the Compliments
of the
Secretary of State

Scottish Office,
Dover House,
Whitehall,
London, S.W.1 A 2AU

STATEMENT
TUESDAY 17 JULY 1984

HOUSE OF COMMONS

RATE SUPPORT GRANT (SCOTLAND)
STATEMENT BY SECRETARY OF STATE FOR SCOTLAND
(MR GEORGE YOUNGER)

WITH PERMISSION, MR SPEAKER, I SHALL MAKE AN ANNOUNCEMENT ABOUT LOCAL AUTHORITY EXPENDITURE AND RATE SUPPORT GRANT IN SCOTLAND.

SCOTTISH LOCAL AUTHORITIES ARE PLANNING EXPENDITURE IN 1984-85 WHICH IS SOME £114 MILLION OR 4.2% ABOVE THE CURRENT EXPENDITURE GUIDELINES THAT I ISSUED TO THEM. WHEN I MET THE CONVENTION OF SCOTTISH LOCAL AUTHORITIES ON 22 JUNE, I SAID THAT I WAS DISAPPOINTED THAT AUTHORITIES WERE NOT MUCH CLOSER TO THE EXPENDITURE PROVISION MADE IN THE RATE SUPPORT GRANT SETTLEMENT. HAVING CONSIDERED THE BUDGET RETURNS OF AUTHORITIES I SAID THAT I HAD DECIDED NOT TO TAKE SELECTIVE ACTION TO REDUCE THE RATES OF ANY INDIVIDUAL LOCAL AUTHORITY THIS YEAR ALTHOUGH I WILL NOT HESITATE TO USE THE POWER AGAIN IF AN INDIVIDUAL AUTHORITY PLANS EXCESSIVE AND UNREASONABLE EXPENDITURE.

HOWEVER SINCE THERE WAS ONLY MARGINAL IMPROVEMENT ON LAST YEAR IN THE GENERAL LEVEL OF EXPENDITURE I MADE IT CLEAR THAT THERE WOULD HAVE TO BE A SUBSTANTIAL GENERAL ABATEMENT OF RATE SUPPORT GRANT. IT IS APPARENT THAT THE ABATEMENT WHICH I IMPOSED LAST YEAR WAS NOT SUFFICIENT TO IMPRESS UPON AUTHORITIES THE VERY REAL NEED TO BRING THEIR SPENDING INTO LINE WITH GOVERNMENT GUIDELINES.

IN MY CONSIDERATION OF THE LEVEL OF ABATEMENT REQUIRED I WAS VERY AWARE OF TWO ARGUMENTS WHICH THE CONVENTION AND INDIVIDUAL AUTHORITIES HAD RAISED WITH ME.

FIRSTLY, THE DISTRIBUTION OF THE ABATEMENT. PREVIOUSLY GRANT REDUCTIONS FOR EXCESS OVER GUIDELINES BORE NO RELATION TO THE LEVEL OF EXCESS OVER GUIDELINE. AUTHORITIES WERE PENALISED IN PROPORTION TO THEIR SHARE OF GRANT RATHER THAN ON THE BASIS OF THEIR DEGREE OF OVERSPEND. THIS, I ACKNOWLEDGE WAS NOT FAIR. DURING THE PARLIAMENTARY PROCEEDINGS ON THE RATING AND VALUATION (AMENDMENT) (SCOTLAND) ACT 1984 IT WAS MADE CLEAR THAT I INTENDED TO USE MY POWERS UNDER THE ACT TO ENSURE THAT THE AMOUNT OF REDUCTION FOR EACH AUTHORITY WAS DIRECTLY RELATED TO THE EXTENT OF ITS OVERSPEND.

SECONDLY, COSLA HAS FOR A NUMBER OF YEARS REPRESENTED TO ME THE UNFAIRNESS OF A SYSTEM WHICH DID NOT RECOGNISE REDUCTIONS IN OVERSPEND AT OUT-TURN AND THUS GAVE NO INCENTIVE TO RESPOND TO AN ABATEMENT BY ECONOMIES IN THE CURRENT YEAR. THIS YEAR, I HAVE DECIDED THAT THE AMOUNT OF THE GRANT REDUCTION WILL BE ADJUSTED WHEN INFORMATION IS AVAILABLE ABOUT ACTUAL EXPENDITURE IN 1984-85. ANY AUTHORITY WHOSE EXPENDITURE AT OUTTURN IS BELOW GUIDELINES WILL HAVE ITS GRANT PENALTY CANCELLED. AN AUTHORITY WHICH WHILE STILL ABOVE GUIDELINE REDUCES ITS EXPENDITURE AT OUTTURN WILL HAVE ITS PENALTY REDUCED. CONVERSELY OF COURSE, AN AUTHORITY WHICH INCREASES ITS EXCESS WILL FIND ITS PENALTY ON OUTTURN INCREASED.

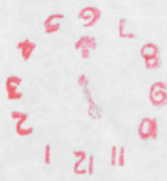
IN THE LIGHT OF THESE TWO SIGNIFICANT IMPROVEMENTS TO THE SYSTEM WHICH HAVE REMOVED THE BASIC UNFAIRNESSES WHICH HAVE PREVIOUSLY EXISTED, I HAVE HAD TO CONSIDER WHETHER TO SEEK A GRANT REDUCTION EQUAL TO THE FULL AMOUNT OF THE OVERSPENDING OF £114M.

I HAVE DECIDED HOWEVER THAT A PENALTY OF THIS SCALE WOULD BE TOO STEEP AN INCREASE ON LAST YEAR'S TOTAL PENALTY OF £64M. I HAVE DECIDED THAT FOR 1984/85 THE APPROPRIATE REDUCTION WOULD BE £90M. I WILL LAY THE NECESSARY RATE SUPPORT GRANT

ORDER SHORTLY AND GRANT REDUCTIONS WILL START ON 1ST AUGUST. I HAVE TODAY PLACED IN THE LIBRARY A PAPER SHOWING HOW THE ABATEMENT WILL AFFECT EACH LOCAL AUTHORITY, AND LETTERS OF NOTIFICATION TO THEM ARE BEING POSTED TODAY.

I ACCEPT THAT THIS PENALTY WILL BE REGARDED AS SEVERE. AT THE SAME TIME THE NEW SYSTEM WILL ALLOW AUTHORITIES TO REDUCE THEIR PENALTY IN PART OR IN ENTIRETY BY TAKING POSITIVE ACTION NOW TO BRING THEIR SPENDING DOWN. THE SOLUTION LIES IN THEIR HANDS. IN THE INTERESTS OF THEIR RATE PAYERS AND OF THE ECONOMY AS A WHOLE I HOPE THAT THIS OPPORTUNITY WILL NOT BE MISSED.

SCOTTISH OFFICE



17 JUL 1984



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Tim Flesher Esq
Private Secretary
10 Downing Street
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16 July 1984

Dear Tim,

STATEMENT ON SCOTTISH LOCAL AUTHORITY EXPENDITURE

Provisional arrangements have been made with Charles Marshall for my Secretary of State to make a statement about Scottish local authority expenditure and rate support grant in 1984-85, tomorrow Tuesday 17 July. The statement is confined to my Secretary of State's proposed reduction in rate support grant which will shortly be the subject of a variation order. I attach a draft of the statement and would be grateful for your clearance.

I am copying this letter to John Ballard (Environment), Colin Jones (Welsh Office), John Gieve (Chief Secretary's Office), Murdo Maclean (Chief Whip's Office), Charles Marshall (Office of the Leader of the House), Richard Hatfield (Cabinet Office) and to the No 10 Press Office. I am also sending a copy to David Beamish (Office of the Leader of the House of Lords) to consider whether a parallel statement should be made in the Lords.

Yours sincerely

EDDIE GOWANS
Private Secretary

DRAFT STATEMENT FOR SECRETARY OF STATE
RATE SUPPORT GRANT (SCOTLAND)

With permission, Mr Speaker, I shall make an announcement about local authority expenditure and rate support grant in Scotland.

Scottish local authorities are planning expenditure in 1984-85 which is some £114 million or 4.2% above the current expenditure guidelines that I issued to them. When I met the Convention of Scottish Local Authorities on 22 June, I said that I was disappointed that authorities were not much closer to the expenditure provision made in the rate support grant settlement. Having considered the budget returns of authorities I said that I had decided not to take selective action to reduce the rates of any individual local authority this year although I will not hesitate to use the power again if an individual authority plans excessive and unreasonable expenditure.

However since there was only marginal improvement on last year in the general level of expenditure I made it clear that there would have to be a substantial general abatement of rate support grant. It is apparent that the abatement which I imposed last year was not sufficient to impress upon authorities the very real need to bring their spending into line with Government guidelines.

In my consideration of the level of abatement required I was very aware of two arguments which the Convention and individual authorities had raised with me.

Firstly, the distribution of the abatement. Previously grant reductions for excess over guidelines bore no relation to the level of excess over guideline. Authorities were penalised in proportion to their share of grant rather than on the basis of their degree of overspend. This, I acknowledge was not fair. During the Parliamentary proceedings on the Rating and Valuation (Amendment) (Scotland) Act 1984 it was made clear that I intended to use my powers under the Act to ensure that the amount of reduction for each authority was directly related to the extent of its overspend.

Secondly, COSLA has for a number of years represented to me the unfairness of a system which did not recognise reductions in overspend at out-turn and thus

gave no incentive to respond to an abatement by economies in the current year. This year, I have decided that the amount of the grant reduction will be adjusted when information is available about actual expenditure in 1984-85. Any authority whose expenditure at outturn is below guidelines will have its grant penalty cancelled. An authority which while still above guideline reduces its expenditure at outturn will have its penalty reduced. Conversely of course, an authority which increases its excess will find its penalty on outturn increased.

In the light of these two significant improvements to the system which have removed the basic unfairnesses which have previously existed, I have had to consider whether to seek a grant reduction equal to the full amount of the overspending of £114m.

I have decided however that a penalty of this scale would be too steep an increase on last year's total penalty of £64m. I have decided that for 1984/85 the appropriate reduction would be £90m. I will lay the necessary Rate Support Grant Order shortly and grant reductions will start on 1st August. I have today placed in the Library a paper showing how the abatement will affect each local authority, and letters of notification to them are being posted today.

I accept that this penalty will be regarded as severe. At the same time the new system will allow authorities to reduce their penalty in part or in entirety by taking positive action now to bring their spending down. The solution lies in their hands. In the interests of their rate payers and of the economy as a whole I hope that this opportunity will not be missed.

6 JUL 1984

