



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Tim Flesher Esq
Private Secretary
10 Downing Street
LONDON
SW1

22 July 1986

Dear Tim

NBP

I enclose a copy of a draft statement which my Secretary of State proposes to make tomorrow afternoon about Local Authority Expenditure and Rate Support Grant in Scotland. This is subject to final agreement with the Chief Secretary.

I am copying this letter to Jill Rutter (Treasury), Robin Young (Environment), Colin Williams (Welsh Office), Murdo Maclean (Whip's Office), Joan MacNaughton (Lord President's Office), Michael Stark (Cabinet Office) David Morris (Leader's Office), Bernard Ingham (Prime Minister's Press Office) and Rhodri Walters (Lords Chief Whip's Office) to consider whether a parallel statement should be made in the Lords.

Yours
Andy

ANDY RINNING
Private Secretary

LOCAL GOVERNMENT FINANCE (SCOTLAND)

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

I would first like to deal with 1987-88. For that year I propose to set the level of provision for local authority relevant current expenditure in Scotland at £3277 million. This figure is 3.75% (that is the Government's estimate of general inflation) above local authorities' budgets for 1986-87, adjusted for the recent teachers' pay award. This recognises the efforts made by increasing numbers of authorities to budget at guideline.

I propose to set Aggregate Exchequer Grant for 1987-88 at £2160 million, thus maintaining, on present estimates of loans charges and other financing items, the present grant percentage of 56.1%.

I consider that my proposals on provision and grant represent a fair and realistic settlement for next year. In making these proposals I have taken careful account of the points made to me by the Convention of Scottish Local Authorities. I met the Convention on the 18th July when we discussed expenditure prospects for next year. My hon friend the Minister for Local Government and the Environment met the Convention this morning to outline these proposals to them.

Given this generous and realistic settlement there is no reason for significant rate increases next year unless local authorities increase their spending next year above inflation or fail to bring their spending to guideline in the current year. I very much hope that local authorities will, in the interests of their ratepayers, respond positively to these proposals.

I turn now to 1986-87. Scottish local authorities have budgeted for 1986-87 to spend £118 million or 3.9% more than the current expenditure guidelines which were issued to them. Authorities were given ample warning that the penalties for exceeding guidelines would again be severe. I have therefore decided, having consulted the Convention of Scottish Local Authorities on my proposals last week, to impose grant penalties for 1986-87 totalling £125 million. I will be laying the necessary Rate Support Grant Order shortly and grant reductions will start on 30 July. I have today placed in the Library a paper showing how the penalties will affect each local authority and letters of notification are being posted to them today.

Penalties will again be calculated using a tariff which relates the penalty to the level of excess over guideline. The tariff will, to a greater extent than last year concentrate the penalties on the highest overspenders. In particular the 4 authorities which are responsible for 90% of the overspending will all have a penalty which is larger than in 1985-86.

Local authorities as a whole are increasingly budgeting within guidelines. In 1986-87 40 out of the 65 authorities budgeted within guidelines and will suffer no penalty. I hope that the 25 remaining authorities which are responsible for the overspending in 1986-87 will make every effort to reduce their expenditure at outturn and thus recover the grant penalty which I have just announced. There are considerable benefits to authorities in doing so. In 1985-86 local authorities responded to penalties by bringing down their overspend from £91 million to £47 million and penalties will correspondingly be reduced from £126 million to £57 million. The advantages of spending within guideline are considerable and I hope that in 1986-87 there will again be many authorities modifying their spending to be within guideline at outturn.





PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

11 July 1986

Dear Robin,

Thank you for your letter of 2 July about the timing of the RSG announcement. Since you wrote, the Lord Privy Seal has seen the letters on this subject from the Welsh Secretary and the Chief Secretary to the Treasury.

As you know, we have been seeking to arrange Statements on the RSG not only for England, but also for Wales and Scotland. I believe that it would be generally convenient if we aim to make the Statement on the RSG for England on Tuesday 22 July. The RSG Statements for Wales and Scotland would follow, in that order, on Wednesday 23 July. As you will appreciate, there is considerable pressure on the business to be taken in that week, and there is little scope for flexibility in these arrangements.

I am copying this letter to the Private Secretaries to the members of E(LA), David Norgrove, Murdo Maclean, Rhodri Walters and Michael Stark.

Yours,
Alison

ALISON SMITH
Private Secretary

Robin Young Esq
Private Secretary to the
Secretary of State for the Environment

