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**BY FAX**

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*Dear Jeremy*

**LOCAL GOVERNMENT FINANCE: SCOTLAND**

My Secretary of State proposes to announce the 1991-92 AEF settlement for Scottish local authorities on Wednesday. He did, of course, make a written statement last Thursday about the application to Scotland of the community charge changes agreed by E(LG).

I attach a copy of Mr Rifkind's proposed oral statement and should be grateful for any comments by close of play today. With regard to your letter of 19 July, my Secretary of State, of course, fully accepts the point made at the end of paragraph 2.

I am copying this letter and enclosure to the Private Secretaries to members of E(LG) and to Sonia Phippard (Cabinet Office).

*Yours  
Jim*

**J D GALLAGHER**  
Private Secretary

LOCAL GOVERNMENT FINANCE - SCOTLAND: STATEMENT BY SECRETARY  
OF STATE FOR SCOTLAND

With permission, Mr Speaker, I should like to make a statement about my proposed financial settlement for Scottish local authorities for 1991-92.

This is the first year in which the Scottish announcement is in respect of the total level of local authority resources which are determined by the Government. That is, revenue support grant, specific grants and business rates. Collectively these are known as Aggregate External Finance. In determining the settlement I have taken into account the views the Convention of Scottish Local Authorities expressed when I met them on 6 July regarding the spending levels which they thought were required for next year. I have also had full regard to the additional burdens facing local authorities and to the scope which undoubtedly exists in local government for improved efficiency.

I propose that Aggregate External Finance for 1991-92 should be set at £4338 million. This is £410 million higher than the corresponding figure for the current year. In addition, a further sum of £15 million will be provided for safety netting next year. This will be the second year in which the safety net has been funded entirely by the Exchequer. So overall, a total of £425 million extra will be available for distribution to Scottish authorities next year. The House will realise that this is substantially more than the application of the normal formula rules to the comparable English settlement would produce. Proposals for the distribution of this amount to individual authorities will be announced in the usual way in the Autumn.

In reaching this settlement, I have assumed that local authorities will contribute the sum of £10 million in the second year of the Government's policy of moving to a common rate poundage with England and thereby reduce the excess rate burden on Scottish business. I shall announce the total

reduction that will be made in business rates next year at a later date, but the fact that the local authorities' contribution has already been taken into account in this settlement means that the reduction in non-domestic rate income will be fully compensated for by an increase in revenue support grant.

Overall the settlement I have announced today is a very fair one. Even if authorities were to budget to increase their expenditure next year by the current rate of inflation, there would be no need for community charges to increase, on average, in real terms. And, if as I hope, authorities take account of the expected fall in the rate of inflation next year, there should be scope for next year's charge levels to be lower in real terms. I hope that Scottish local authorities will also take into account their very high expenditure compared to local authorities in England and Wales. If local authorities in Scotland spent at the same level as those elsewhere in Britain there would be scope for very large reductions in the community charge.

Mr Speaker, as hon members will know, I announced last Thursday a number of changes to the community charge. These included major revisions to the transitional relief scheme, the prescription of a boundary for the rating of bed and breakfast establishments and additional classes with restricted maximum multipliers for the standard community charge. The changes to the transitional relief scheme, which will take effect in Scotland from 1 April 1990, will increase significantly the value of relief received by individuals and the numbers entitled to receive relief. Our decision to set a boundary for the rating of bed and breakfast establishments has been widely welcomed, while the additional standard charge classes have been identified as a result of experience gained in operating the new powers which took effect at the beginning of this year.

These changes and the settlement which I have announced today represent good news for charge payers in Scotland.