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CGPU.
n.b.P.M.
(Statement
now agreed)
BHP
25/7

Treasury Chambers, Parliament Street, SW1P 3AG

Jim Gallagher Esq
Private Secretary to the
Secretary of State
Scottish Office
Whitehall
London
SW1A 2AU

25 July 1990

Dear Jim,

LOCAL GOVERNMENT FINANCE: SCOTLAND

File with BP

Thank you for your 24 July letter, and for the draft of Mr Rifkind's proposed oral statement.

2. The Chief Secretary has four comments, which I understand have also been discussed between officials.

- In the third paragraph, the Chief Secretary is content for Mr Rifkind to say that the settlement is above that implied by the block formula, provided, of course, that, if pressed, the Secretary of State will make clear that the extra resources are coming from the Scottish Block, rather than from the Exchequer.
- At the end of the fourth paragraph, the Chief Secretary thinks it would be clearer to say that "the reduction in non-domestic rate income will not require a reduction in AEF below the figure I have just announced."
- The Chief Secretary is slightly concerned that the second and third sentences of paragraph 5 suggest that it is in order for local authorities to increase their expenditure in line with the current rate of inflation, whatever that may happen to be. He suggests these sentences could be redrafted along the following lines:

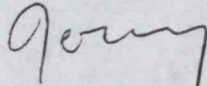
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"Even if, as COSLA have forecast, authorities budget to increase their expenditure next year by as much as 9 per cent, close to the current rate of RPI inflation, there should be no need for community charges to increase, on average, by more than this. And if, particularly with the expected fall in the rate of inflation, authorities increase spending by rather less, there should be scope for next year's charge levels to be lower in real terms."

- The Chief Secretary is concerned that the last sentence of paragraph 5 implies that the whole benefit of what would be very substantial reductions in local authority spending in Scotland would be passed onto the chargepayer, whereas in practice, there should certainly also be benefits to the taxpayer, and perhaps the business ratepayer, through reductions in AEF. He is content with the text of the sentence - which is certainly right - provided the Secretary of State allows for this point, if asked to elaborate on it.

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

Yours



JEREMY HEYWOOD
Private Secretary

