



n.b. P.M.

BHP

2577

CE
D.M.
D.L.

SCOTTISH OFFICE

WHITEHALL, LONDON SW1A 2AU

BY FAX

Barry Potter Esq
Private Secretary
to the Prime Minister
10 Downing Street
LONDON SW1

25th July 1990

Dear Barry,

LOCAL GOVERNMENT FINANCE: SCOTLAND *- map*

Further to Jim Gallagher's letter of 24 July I now attach a copy of the final version of the AEF statement which my Secretary of State will make later today. This latest draft takes on board comments offered by Treasury colleagues.

Copies of this letter and enclosure go to the Private Secretaries to members of E(LG), Sonia Phippard (Cabinet Office), Bernard Ingham (No 10), Murdo Maclean Chief Whip (Commons) and Douglas Slater, Chief Whip (Lords).

*Yours sincerely
Len Wright*

LEN WRIGHT
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. The House will realise that this is substantially more than the application of the normal formula rules to the comparable English settlement would produce. In addition, a further sum of £15 million will be provided for safety netting next year. This also will be the second year in which the safety net has been funded entirely by the Exchequer. So overall, the settlement amounts to a total of £425 million. 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 not require a reduction in Aggregate Exchequer Finance below the figure I have just announced.

Overall the settlement I have announced today is a very fair one. Even if, as COSLA have forecast, authorities were to budget to increase their expenditure next year by as much as 9%, that is close to the current rate of RPI inflation, there should be no need for community charges to increase, on average, by more than that amount. And, if particularly with the expected fall in the rate of inflation, authorities increase spending by rather less than 9% - as I would hope they would - 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 were to reduce their spending to levels closer to those elsewhere in Britain there would be scope for 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.

LOCAL GOVT: RELS PK 28

F.R.

