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FROM: CHIEF SECRETARY
DATE: 28 February 1985

PRIME MINISTER

RATES AND REVALUATION IN SCOTLAND

I would like to set out briefly some facts which are not reflected in George Younger's minute to you of 27 February which I have only just seen. attached

2 George Younger and I reached agreement last July on a figure for Aggregate Exchequer Grant (AEG) for Scotland of £1905 million. I regarded this figure as final in what I have always acknowledged is a difficult area.

3 In deference to George Younger's growing concern, I agreed last November to re-open the AEG decision. After two meetings, which went into considerable detail on the basis of figures extensively discussed and agreed between officials, we agreed to a new AEG total of £1924 million.

4 I am surprised and disappointed that George Younger is trying to re-open this decision as well.

5 I think it would be wrong to agree to a higher figure for the following reasons:

- (i) LA spending in Scotland has increased faster in cost terms than in England since 1979 (10.8 per cent against 7.7 per cent) and manpower has fallen less (3 per cent against 4 per cent).

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(ii) Levels of provision in Scotland are higher than in England e.g. pupil teacher ratios in 1983/84 were 17.0 in Scotland, 17.9 in England

(iii) In the two years from 1982-83 to 1984-85 rates have increased by 5½ per cent in Scotland, over 12 per cent in England

(iv) Even on the figures agreed in the autumn the grant percentage for 1985-86 is over 56 in Scotland, under 49 in England. It would be impossible to defend an even bigger differential.

(v) The converse of the high domestic rate increases in Scotland will be very much lower non-domestic figures, with benefits to industry and employment

(vi) Danger that settlement will not be reached

6 Finally, I must emphasise that the extra £64 million George is asking for would affect the Chancellor's Budget arithmetic. It is almost equivalent to the cost of indexing the high rate thresholds.

7 I am sending a copy of this to George Younger.

PK

PETER REES

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