



B/F 4/11
cc B. Ughwin

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PRIME MINISTER

LOCAL AUTHORITY EXPENDITURE: SCOTLAND: AGGREGATE
EXCHEQUER GRANT 1986-87

The Chief Secretary and I have been discussing since June the appropriate level of Aggregate Exchequer Grant (AEG) for Scotland for 1986-87.

My objectives are to ensure that:

- a. on a realistic forecast of expenditure the general level of rate increases in Scotland is not out of line with inflation after a very damaging year in 1985 (about which I warned colleagues) and bearing in mind that 1986 is a year of regional council elections.
- b. individual authorities which have co-operated with Government policy receive a satisfactory grant figure (you attached a particular importance to this).
- c. the total figure for AEG can be presented as fair in relation to England and Wales, given that grant penalties will remain in Scotland, reducing the initial grant figure by returning penalties to the Exchequer. In England, now that penalties have been abolished, the initial AEG figure will no longer be reduced by grant penalties; Scottish authorities are very aware of this.

The Chief Secretary has proposed an AEG figure of either £2000 million, or £2015 million with tougher penalties designed to yield an additional £15 million. In the interests of reaching a settlement, I have offered to accept an AEG figure of £2015 million with a guarantee that penalties can be increased if they do not bring in a minimum figure required by the Treasury. While I am prepared to settle on this basis I have to point out that I do not consider this enables me to meet fully my objectives and in particular the one to which you attach special importance. In view of your interest I would therefore not wish to settle on this basis without your approval.

I would like to describe what I see as the consequences of such a settlement. With an AEG of £2015 million, on my view of a realistic forecast of expenditure reduction next year (1.5% in real terms) the rating burden will increase by 6.5%. Nigel Lawson is forecasting inflation figures well below this.

It is impossible within the figure of £2015 million to ensure that there is a satisfactory result for all co-operative authorities. In particular, Bearsden and Milngavie District Council will find itself with a reduced grant figure again this year. I am also seriously concerned about the rate consequences of the settlement on Strathclyde Regional Council which accounts for half of the Scottish population and whose rates are the major component of the bills of ratepayers in co-operative authorities, such as

Eastwood. Heavy penalties this year and reduced grant next year will push up the Strathclyde rate by well over twice and possibly three times the rate of inflation.

To be fair in comparison with England, Scotland should have a cash standstill in AEG (£1962 million) plus an allowance for continuing penalties. This year penalties are reducing grant by £126 million. While this may come down to £60 million to £80 million at outturn, a figure of £2015 million with increased penalties does not compare with England on this basis.

Thus while I am prepared to settle at £2015 million it does not meet the objectives I have set out and in pushing up penalties still further in Scotland, when they have gone in England, will add further to feeling already created by this year's events, that Scotland has been unfairly treated. I feel that in these circumstances and in the light of the discussions we had earlier in the year, I could not proceed to settle on this basis without your approval.

A.Y.

October 1985

