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NEA
to see
cc BI
DWS

11 May 1987

Dear David

**LOCAL AUTHORITY CURRENT EXPENDITURE
1987-88: GRANT PENALTIES AND SELECTIVE
ACTION**

I enclose a copy of a draft statement which my Secretary of State proposes to make in the House this afternoon and I should be grateful for your clearance.

Copies go to Steven Wood, Robin Young, Jill Rutter, Chris Capella, Murdo McLean, Rodri Walters and Bernard Ingham.

Yours
Andy

ANDY RINNING
Private Secretary

HMP13103

WITH PERMISSION, MR SPEAKER, I WISH TO MAKE A STATEMENT ON LOCAL AUTHORITIES' BUDGETS AND RATES FOR 1987-88.

LOCAL AUTHORITIES IN SCOTLAND HAVE BUDGETED TO SPEND £122.1 MILLION OR 3.7% OVER GUIDELINES IN 1987-88 AND HAVE DETERMINED RATES WHICH WILL, ON AVERAGE, INCREASE DOMESTIC RATE BILLS BY 15%. FOR RATEPAYERS IN SOME AREAS, THE INCREASE IS MUCH HIGHER. THIS IS DISAPPOINTING AND UNSATISFACTORY. THE RATE SUPPORT GRANT SETTLEMENT WAS A GENEROUS ONE INTENDED TO ALLOW LOCAL AUTHORITIES GENERALLY TO MAINTAIN REAL LEVELS OF SPENDING WITHOUT SUBSTANTIAL RATE INCREASES. BUT TOO MANY AUTHORITIES HAVE PLANNED FOR QUITE UNACCEPTABLE LEVELS OF GROWTH.

AFTER CONSULTATION WITH THE CONVENTION OF SCOTTISH LOCAL AUTHORITIES, I HAVE THEREFORE DECIDED THAT, IN ORDER TO ENCOURAGE THOSE AUTHORITIES WITH PLANNED OVERSPENDS TO RECONSIDER THEIR BUDGETS, THERE WILL BE GRANT PENALTIES FOR OVERSPENDING ON A TARIFF WHICH STARTS AT GRANT LOSS OF 70% OF OVERSPEND, RISING TO 120% FOR A 2.5% OVERSPEND. ABOVE 2.5% THE RATE OF PENALTY INCREASES TO 140% FOR A 3% OVERSPEND, AND THEN TO 175% FOR A 3.5% OVERSPEND OR ABOVE. THE RATE OF INCREASE BETWEEN EACH OF THESE POINTS IS EVEN (LINEAR). ON THE BASIS OF PLANNED EXPENDITURE, THE TOTAL PENALTY WILL BE £202 MILLION, THOUGH PENALTIES WILL SUBSEQUENTLY BE ADJUSTED IN THE LIGHT OF ACTUAL EXPENDITURE, AND IT IS THEREFORE OPEN TO AUTHORITIES TO REDUCE THEIR LIABILITY TO PENALTY, OR TO RECOVER PENALTIES COMPLETELY, BY REDUCING THEIR EXPENDITURE. I HOPE THAT MANY AUTHORITIES WILL DO SO, AND IT IS TO ASSIST THEM IN DOING SO THAT I AM MAKING THIS EARLY ANNOUNCEMENT OF OUR INTENTIONS.

I AM PLEASED TO NOTE THAT FOR 1986-87 40 AUTHORITIES HAVE PROVISIONAL OUTTURNS WITHIN GUIDELINES, AND A NUMBER OF AUTHORITIES WHO PLANNED TO SPEND OVER GUIDELINES HAVE REDUCED THEIR EXPENDITURE ON OUTTURN. AS A RESULT, SOME £28 MILLION IN GRANT PENALTIES LEVIED IN 1986-87 WILL BE RETURNED TO THE AUTHORITIES CONCERNED.

I AM TODAY LAYING THE NECESSARY RATE SUPPORT GRANT ORDER IN RESPECT OF GRANT REDUCTIONS IN 1987-88, AND REPAYMENTS FOR 1986-87. A CIRCULAR IS BEING SENT TO ALL LOCAL AUTHORITIES GIVING THEM THE DETAILS.

GRANT PENALTIES WILL APPLY TO ALL AUTHORITIES PLANNING TO OVERSPEND. I HAVE ALSO CONSIDERED THE PARTICULAR PROBLEMS FACING RATEPAYERS IN THE AREAS OF THOSE AUTHORITIES WHICH ARE PLANNING THE MOST SUBSTANTIAL EXPENDITURE EXCESSES OVER GUIDELINE. AS A RESULT I HAVE DECIDED TO INITIATE ACTION IN TERMS OF SECTION 5 OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1966 IN RESPECT OF LOTHIAN REGIONAL COUNCIL, CLACKMANNAN DISTRICT COUNCIL AND THE CITY OF EDINBURGH DISTRICT COUNCIL ON THE GROUNDS THAT THEIR PLANNED EXPENDITURE FOR 1987-88 IS EXCESSIVE AND UNREASONABLE. LETTERS HAVE TODAY BEEN SENT TO THE THREE COUNCILS PROPOSING RATE REDUCTIONS OF 3.9P, 2.8P AND 2.8P RESPECTIVELY, AND INVITING EACH TO MAKE REPRESENTATIONS ABOUT THE PROPOSED REDUCTION. IF IMPLEMENTED, MY PROPOSALS WOULD RESULT IN A REDUCTION IN THE AVERAGE DOMESTIC RATE BILL OF £50.77 IN EDINBURGH, £28.59 IN OTHER PARTS OF LOTHIAN REGION, AND £16.61 IN CLACKMANNAN.