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CBG

*Mr Middleton
Mr Bailey
Mr Anson
Mr Jameson
Mr Schell
Mr Watson
Mr Norton
Mr Allan
Mr Pirie
Mr Sudge
Mr Cupper
Mr Lord*

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

pc

30 October 1985

Dear George,

LOCAL AUTHORITY EXPENDITURE: SCOTLAND: AEG 1986-87

attached

Thank you for your letter of 24 October.

I am afraid I cannot accept your proposal to limit penalties at outturn to £80 million. This could give very perverse signals to local authorities and it provides no certainty at all that the cost would be kept to the equivalent of a £2,000 million AEG at settlement with the existing penalty tariff. I cannot go beyond that. As you know, I regard £2,000 million as a fair figure for Scotland by comparison with the AEG figure already announced for England.

Nevertheless you have made it clear that you regard the political consequences of a settlement at this level as serious and overriding. In the light of your comments I am prepared on this occasion to agree to your earlier proposal to announce an AEG of £2,025 million, provided that the additional £25 million is found from savings within the Scottish block. That seems to be the only alternative, given the difficulties you see in a tougher penalty regime.

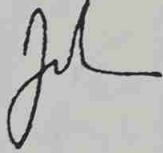
The result of proceeding in this way will be to produce a net reduction in your block in public expenditure of £25 million in 1986-87. This is in addition to the savings of, in rounded figures, £9 million, £21 million and £10 million which will arise from the proposal in your letter of 24 October to Willie Whitelaw to alter the way in which economic assumptions are applied to your housing programme. I am prepared to agree to this proposal (subject to the figures being verified by our officials - in 1988-89 I understand the saving to be the £10 million I mention above rather than the £25 million you referred to).

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We have of course yet to conclude discussions on other aspects of your programme.

I am copying this letter to Willie Whitelaw, other MISC 120 members and to Brian Unwin (Cabinet Office).

Yours ever,


JOHN MacGREGOR

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