



CONFIDENTIAL

PRIME MINISTER

WALES RATE SUPPORT GRANT 1984/85

Following the agreement of the essentials of the 1984/85 Rate Support Grant for England I have discussed with the Chief Secretary what should be the matching decisions for Wales. Our positions are very far apart and it has not been possible to reach any agreement. The principles underlying our respective positions are fundamentally different, and I feel I have no option but to bring the matter to you for decision.

At issue is the amount of Aggregate Exchequer Grant (AEG) and the pattern of holdback. The two need to be a balanced package, but the Chief Secretary has declined to discuss holdback until the AEG quantum is settled.

In my view the Aggregate Exchequer Grant figure should be calculated on the basis of the same principles of block grant that have been used previously. The fundamental principle of block grant is rate poundage equalisation and in Wales, the rate support grant settlement should take place on the basis of broadly equal effects to those in England: this was confirmed as logical and equitable by an official working party led by the Treasury prior to the 1982/83 settlement. The same applies to the settlement for Scotland. The decision reached in respect of England for 1984/85 is that the proportion of relevant expenditure met by AEG should be reduced by 0.6 per cent, which is equivalent to a 2p rate for English authorities as a whole. It would therefore be right to reduce the proportion in Wales by such an amount as would be equivalent to a 2p rate increase for Welsh authorities as a whole. On that basis the AEG figure would be £1008m if relevant expenditure is £1440m (which is agreed as a working assumption).

In the discussion of the England figures in E(LA) we were very concerned that the rating effects of the combined AEG and holdback package should not be excessive. The package eventually agreed was shown in the tables presented as a basis for the discussion as producing an average rate increase of 11½ per cent if authorities budget for an increase of 4 per cent over their budgets this year in cash terms. In Wales, for an AEG of £1008m, with continuation of my present holdback regime, the resulting average rate increase is 11.8 per cent

In his minute to you of 18 October, the Lord President, after stating that a modest increase in rates is an important policy goal, said that in England if authorities collectively spend at 3 per cent more than their 1983/84 budgets in cash terms, rates might rise by 7 per cent. On the basis of my proposals for AEG of £1008m the equivalent Welsh figure would be 8 per cent.





I have therefore argued that I should consult local authorities on the basis of £1008m AEG and the present holdback regime. This package would produce rate poundages broadly similar but if anything a little higher than those related to the England package; my holdback scheme is in fact rather tougher than that agreed for England at the lower levels of excess over target, and proved effective last year in reducing overspending by Welsh local authorities.

The Chief Secretary approaches the issue from a very different direction. He starts from the increase in the cash sum devoted to AEG in England and proposes an equivalent increase in the cash sum devoted to AEG in Wales. This produces an AEG figure of £984m. At that level, with my present holdback scheme, the resulting rate increase matching the 11.8 per cent in England would be 17.1 per cent; or using the Lord President's 3 per cent case, there would be a 13.2 per cent increase in Wales compared with 7 per cent in England.

I cannot accept that the principle of rate poundage equalisation and the fact that Welsh rateable values are lower than in England should be ignored in this way. Neither can I accept the level of rate increase which would result, either in absolute terms or relative to that in England.

The block grant system has worked reasonably well in Wales, whereas in England it has had limited success. Over the lifetime of the last Parliament local authorities in Wales reduced their current expenditure in real terms by about 4 per cent whilst in England there was a 1 per cent increase. Because my block grant system works I am not prepared to have it deformed so that I lose my present influence over local authority spending decisions. Capriciousness in setting the figures, which is to say decisions that cannot be explained and justified by block grant principles, will destroy the effectiveness I have been at pains to develop in my financial dealings with Welsh local authorities. The present principles have again and again been advocated and defended to local authorities and to the House of Commons.

As to the level of rate increase, I have to say that an 11.8 per cent increase will be a blow to Wales, most especially to industry and commerce. The economic recovery in Wales is slow and fragile, and a cost penalty of this size imposed by Government decision will be counter to the efforts which have been made to achieve a solid economic base. We can expect loud protests from the CBI and others. Nonetheless, I have been anxious to help the Chief Secretary in his difficult task and I am sympathetic to the pleas of my colleagues concerned in the England system that the settlement for Wales should not cause them presentational difficulty. I am therefore prepared to withstand the criticism provided the indicated rating effects of the two settlements are broadly comparable even though there will be those who will argue that the relatively successful efforts made by Welsh local authorities to hold expenditure down should be reflected by lower rate bills. However, there is no way that substantially higher indicated rate increases in Wales could be presented or justified. The proposal would be counterproductive in public expenditure terms, because Welsh





authorities would regard it as a wholly unreasonable response to their previous efforts to keep expenditure down and would cease those efforts. I would have to go back on everything I have said on this subject in recent years, and the political damage in Wales would be severe.

I am copying this minute to the Chief Secretary and Sir Robert Armstrong, *and to secretary of State for Scotland.*

25 October 1983

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