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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

25 July 1984

Mr
24/7

Dear Tim

STATEMENT ON WELSH RATE SUPPORT GRANT: 1985-1986

I wrote to you yesterday enclosing a copy of the draft statement my
... Secretary of State will be making to the House today. I now enclose a copy
of the finally agreed version.

/ Copies of this letter and the statement go, as before, to the Private
Secretaries to the Leader of the House of Commons, Government Chief Whip
(Commons), the Lord President, the Secretary of State for the Environment,
the Secretary of State for Scotland, the Chief Secretary to the Treasury
and Sir Robert Armstrong, and also to Mr Bernard Ingham.

Yours sincerely
Judy Roberts

MISS J H ROBERTS

Tim Flesher Esq
Private Secretary
10 Downing Street



OD/01/D7

RATE SUPPORT GRANT SETTLEMENT 1985-86: WALES
STATEMENT BY SECRETARY OF STATE FOR WALES: 25 JULY 1984

Mr Speaker, with permission I wish to make a statement about my proposals for the 1985-86 Rate Support Grant Settlement for Wales.

Local authorities have started to plan their budgets for the next financial year. For this reason I am today circulating my proposals for the key elements of the 1985-86 RSG Settlement to each local authority in Wales. Copies of the comparative material sent to them have been placed in the Libraries and the Vote Office.

I have decided not to make use, in 1985-86, of the new powers given me by the Rates Act to set rate limits for high spending authorities, preferring to rely on the existing measures to influence local spending decisions. Whether the new powers are used in Wales in later years to protect the ratepayer depends entirely on authorities' responses to the present voluntary arrangements.

Before outlining my proposals for the 1985-86 Settlement it is useful to consider what has been achieved to date in Wales, as this has a major bearing on my strategy for 1985-86.

/In 1981-82 ...



In 1981-82 the excess over the Government's planning total for local authority current expenditure in Wales was £41 million, or 4 per cent. Budgets for the present year reveal a cash excess amounting to only half that figure. Furthermore, three quarters of the total overspend against targets arises in just three counties - Clwyd, Mid and West Glamorgan. The overwhelming majority of Councils are budgeting moderately and responsibly, with all the benefits that such a policy brings to their ratepayers. Between 1979-80 and the present year average general rate poundages in Wales have risen by about 7 percentage points less than the rise in the Retail Price Index. The performance on rates since 1981-82 has been even better, with the average increase amounting to only about two thirds of the rise in inflation.

We have therefore reached a position in Wales where aggregate spending is within striking distance of the Government's plans, and where the vast majority of Councils are budgeting to spend at or below target.

This outcome has not been achieved painlessly. It has required most authorities, even low spenders, to contribute savings, and to make difficult choices of priority. It continues to be necessary for all authorities to maintain a tight grip on their spending but provided they do so it should not be difficult for them to meet the targets I am proposing for 1985-86.



In order to maintain the pressure for economies in the area of current expenditure and the housing revenue account I intend to retain the target system which has worked so well in recent years. However, I intend increasing the weight attached to GRE in the current expenditure component from 60 to 70 per cent.

Once again I intend to apply limiters to produce minimum and maximum cash increases on 1984-85 budgets. The minimum increase for the highest spenders will be 2 per cent - which is $1\frac{1}{2}$ per cent higher than the minimum increase allowed in the current year. The maximum increase on this year's budgets will be 4 per cent. In addition, for authorities spending at or below their 1984-85 targets, I propose to add a quarter of one per cent to the current expenditure total otherwise calculable. Thus the maximum increase for low spending authorities spending at or below target in 1984-85 is $4\frac{1}{4}$ per cent, so real terms cuts in current spending should not be required in these authorities.

In total these targets add up to £1,342 million, which implies an increase in current expenditure provision of £25 million. This increase in provision will be contained within the established aggregate public expenditure plans. After allowing for the abolition from next April of the National Insurance Surcharge payable by local government employers, and the greater role proposed for the Manpower Services Commission in funding certain elements of further education, the target aggregate for 1985-86 represents a 4.1 per cent increase on 1984-85 budgets.



It is extremely important that the more generous target package for 1985-86 must not be seen as a signal to relax the search for economies. The resources I have made available are the maximum that the rate and taxpayer can afford. This being so I am proposing to introduce a far tougher grant holdback schedule next year.

In the current year grant holdback ranges from 40 per cent of any excess up to 1 per cent over target, to 90 per cent for any excess over 5 per cent. For 1985-86 I propose that up to 1 per cent over target grant should be withheld at the rate of 100 per cent, and thereafter at a rate of 150 per cent. In addition, I consider that the limiter which reduces holdback in low resource authorities is cushioning the impact of overspending to too great an extent. Accordingly I propose to halve the effect of the present limiter in the coming year.

There will be no other changes in the grant arrangements.

Aggregate grant will be £1,013 million. This represents a grant percentage of about 67 per cent, compared with 69.1 per cent this year. What counts for rating purposes, however, is the increase in grant between that built into authorities' budgets for the present year and that available for 1985-86. On this basis the increase is about £41 million, or 4.2 per cent. If all authorities spend at target - and there is absolutely no reason



why they should not - and apply only half the reserves used in the present year, then ratepayers can look forward to rate increases in 1985-86 no higher, on average, than the presently projected rise in costs for the economy as a whole, 4 1/4 per cent.

The final ingredient of my proposed package for 1985-86 is a £15 million addition to the existing provision for local authority capital investment in 1985-86. This enhancement is linked directly to Welsh authorities' efforts to contain their current expenditure in 1984-85.

I will be consulting the local authority Associations on my proposals for 1985-86 before presenting a Rate Support Grant Settlement to Parliament at the end of the year. I will also be consulting them on the possibility that from 1986-87 onward, targets will be calculated on the assumption that targets in the previous year have been achieved. I am very attracted to this proposition, as breaking the link with budgets would eliminate the tendency for the higher spenders to increase their share of resources at the expense of low spending authorities. However, I will not make a final decision on this aspect until after I have had the opportunity to discuss the important issues involved with the Associations during the Autumn.

I commend my proposals for the 1985-86 Settlement to the House.

25 JUL 1984

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cc AT
Pryor



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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

24 July 1984

Dear Tim

STATEMENT ON WELSH RATE SUPPORT GRANT : 1985/86

Following the circulation of his proposals paper to Members of E(LA), the Secretary of State has agreed his RSG package for 1985/86 with the Chief Secretary, and wishes to announce the key elements to the House tomorrow.

... A copy of the draft statement is attached. There may be some minor revisions to the text during the course of the day, but none of these will be changes of any substance. A copy of the finally agreed version will be circulated as soon as possible.

/ Copies of this letter and the draft statement go to the Private Secretaries to the Leader of the House of Commons, Government Chief Whip (Commons), the Lord President, the Secretary of State for the Environment, the Secretary of State for Scotland, the Chief Secretary to the Treasury and Sir Robert Armstrong, and also to Mr Bernard Ingham.

Yours sincerely
Judy Roberts

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DRAFT

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STATEMENT BY SECRETARY OF STATE FOR WALES: 25 JULY 1984

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Before outlining my proposals for the 1985-86 Settlement it is useful to consider what has been achieved to date in Wales, as this has a major bearing on my strategy for 1985-86.

In 1981-82 the excess over the Government's planning total for local authority current expenditure in Wales was £41 million, or 4 per cent. Budgets for the present year reveal a cash excess amounting to only half that figure. Furthermore, three quarters of the total overspend against targets arises in just three counties - Clwyd, Mid and West Glamorgan. The overwhelming majority of Councils are budgeting moderately and responsibly, with all the benefits that such a policy brings to their ratepayers. Between 1979-80 and the present year average general rate poundages in Wales have risen by about 7 percentage points less than the rise in the Retail Price Index. The performance on rates since 1982-83 has been even better, with the average increase amounting to only [two thirds] of the rise in inflation.

We have therefore reached a position in Wales where aggregate spending is within striking distance of the Government's plans, where the vast majority of Councils are budgeting to spend at or below target, and where it is the

norm for rate increases not to diverge significantly from the going rate of inflation.

This outcome has not been achieved painlessly. It has required most authorities, even low spenders, to contribute savings, and to make difficult choices of priority. It continues to be necessary for all authorities to maintain a tight grip on their spending but provided they do so it should not be difficult for them to meet the targets I am proposing for 1985-86.

In order to maintain the pressure for economies in the area of current expenditure and the housing revenue account I intend to retain the target system which has worked so well in recent years. However, I intend increasing the weight attached to GRE in the current expenditure component from 60 to 70 per cent.

Once again I intend to apply limiters to produce minimum and maximum cash increases on 1984-85 budgets. The minimum increase for the highest spenders will be 2 per cent - which is $1\frac{1}{2}$ per cent higher than the minimum increase allowed in the current year. The maximum increase on this year's budgets will be 4 per cent. In addition, for authorities spending at or below their 1984-85 targets, I propose to add a quarter of one per cent to the current expenditure total otherwise calculable. Thus the maximum increase for low spending authorities spending at or below target in 1984-85 is $4\frac{1}{4}$ per cent, so real terms cuts in spending should not be required in these authorities.

In total these targets add up to £1,342 million, which implies an increase in current expenditure provision of £25 million. After allowing for the abolition from next April of the National Insurance Surcharge payable by local government employers, and the greater role proposed for the Manpower Services Commission in funding certain elements of further education, the target aggregate for 1985-86 represents a [4.1] per cent increase on 1984-85 budgets.

It is extremely important that the more generous target package for 1985-86 must not be seen as a signal to relax the search for economies. The resources I have made available are the maximum that the rate and taxpayer can afford. This being so I am proposing to introduce a far tougher grant holdback schedule next year.

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Aggregate grant will be £1,013 million. This represents a grant percentage of about 67 per cent, compared with 69.1 per cent this year. What counts for rating purposes is the increase in grant between that built into authorities' budgets for the present year and that available for 1985-86. On this basis the increase is about £43 million, or 4.4 per cent. If all authorities spend at target - and there is absolutely no reason why they should not - and apply only half the reserves used in the present year, then ratepayers can look forward to increases in 1985-86 no higher, on average, than the presently projected rise in costs for the economy as a whole, 4 1/4 per cent.

The final ingredient of my proposed package for 1985-86 is a £15 million addition to the existing provision for local authority capital investment in 1985-86. This enhancement is linked directly to Welsh authorities' efforts to contain their current expenditure in 1984-85.

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I commend my proposals for the 1985-86 Settlement to the House.



NRPM

CEP/O

AT 2317

Treasury Chambers, Parliament Street, SW1P 3AG

Colin Jones Esq
 Private Secretary to
 The Secretary of State for Wales
 Welsh Office
 Gwydyr House
 Whitehall
 LONDON
 SW1A 2ER

20 July 1984

Dear Sir:

WELSH RATE SUPPORT GRANT SETTLEMENT 1985-86

In E(LA)(84)13, your Secretary of State circulated proposals for the 1985-86 RSG settlement in Wales. The Chief Secretary was not willing to accept these as they stood but I am now writing to confirm his agreement to a compromise package negotiated by officials and endorsed by your Secretary of State. The agreed settlement will have the following features.

(a) **Targets** The targets will be constructed as in paragraphs 13 to 15 of your Secretary of State's paper subject to a "standard" maximum increase of 4% and a "reward" for target achievers of 0.25%. No authority, therefore, will be set a target allowing an increase over its 1984-85 NIS-adjusted Budget of more than 4½%.

(b) **Current Expenditure Provision** will be increased by £25m over baseline.

(c) Holdback and block grant mechanisms will be as proposed in the paper but aggregate exchequer will be £1016m before adjustments and £1013m after adjusting for the MSC - NAFE transfer. That will amount to 67.1% of relevant expenditure.

As in previous years, in view of the Welsh authorities' record on current expenditure, it has been agreed that there should also be an increase to the provision for capital expenditure

by local authorities. In 1985-86 this will be £15m, bringing the overall addition to the Welsh Local Authority block to £40m.

I am sending copies of this letter to the Private Secretaries to the PM, members of ELA, and Sir Robert Armstrong.

V. J. Gieve

J. Gieve

JOHN GIEVE
Private Secretary

23 JUL 1984

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