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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

16 December 1985

Dear David,

WELSH RATE SUPPORT GRANT SETTLEMENT 1986/87

As you will know, my Secretary of State will be announcing the Rate Support Grant settlement for Wales to the House on Wednesday, 18 December.

... I enclose, for your information, a copy of his proposed statement.

/ This letter and the statement is also copied to ^{the Prime Minister,} Murdo Maclean and David Beamish in the Chief Whip's Offices, to the Private Secretaries of E(LA) members and to Michael Stark in Sir Robert Armstrong's Office.

Yours ever,

Paul Skellon

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PARLIAMENTARY STATEMENT - 18 DECEMBER 1985**WALES RATE SUPPORT GRANT SETTLEMENT: 1986/87**

Mr Speaker, with permission, I wish to make a statement about the Welsh Rate Support Grant Settlement for 1986-87.

I am today announcing to the Welsh Consultative Council on Local Government Finance the details of the 1986/87 Rate Support Grant Settlement. Copies of the text of my statement to the Consultative Council, together with a number of key statistical tables, have been placed in the Library of the House. The Rate Support Grant Report has been laid before the House today and will be debated in the usual way. A copy of the Report has also been placed in the Library.

This settlement marks an important stage in the process of bringing Welsh local authority expenditure into line with the Government's plans. My strategy for 1986/87 reflects the commendable performance of Welsh local authorities in reducing the overspend against the Government's targets from around £50m in 1981/82 to £4.5m in 1985/86. The total increase in rates since 1979 has been kept to 7 percentage points below the change in the RPI. This success in reining back current expenditure has enabled me to release additional resources for capital investment.

Against this background the 1986-87 settlement presents a challenge to local authorities in Wales. I acknowledge that in meeting it they will face difficult decisions. They will need to press for moderate pay settlements for their employees and find a way of absorbing any additional costs if they are to avoid taking the easy option of adding to the burden on ratepayers. Pay awards should not lead automatically to higher spending in either the public or private sectors nor should they be passed straight on to customers. The aim should be to seek to absorb any additional costs through better use of resources and by achieving better value for money. Good examples have already been set by many authorities in Wales in this respect.

I turn now to the details of the Settlement. The main features confirm the intentions I announced in July, subject only to modifications to reflect the reduced level of interest rates and revised estimates for specific and

supplementary grants. The total of relevant expenditure provision accepted for grants is £1,597.1 million. This marginal reduction of £0.9 million on the provisional figure announced in July allows for a reduction reflecting the fall in interest rates which has broadly been balanced by an increase in provision for financing additional capital expenditure. The total comprises £1,368.1 million for current expenditure and £229 million for non-current items. Current expenditure provision - after taking into account the higher level of direct funding in the further education sector by the Manpower Services Commission - is £51 million or 3.8 per cent more than the expenditure underlying local authorities' budgets in 1985-86, while the total of relevant expenditure is about £75 million or 4.9 per cent more than the comparable budgeted total for the present year.

Aggregate exchequer grant, as announced in July, will be £1,067 million, comprising £169.4 million for specific grants, £19.6m for transport supplementary grant, £2.2 million for national parks supplementary grant and £875.8m for the rate support grants. Domestic rate relief remains unchanged at 18½ pence in the £ which costs £25.8m, leaving £850m as block grant. After deducting £0.6m for payments to specified bodies the amount available for distribution to local authorities is £849.4 million.

The aggregate exchequer grant of £1067 million is £52.8 million or 5.2 per cent more than the aggregate exchequer grant provision in the main report for the current year, and represents 66.8 per cent of relevant expenditure, as against an effective rate in the current financial year of 66.6 per cent. Broadly speaking, therefore, the level of grant support has been maintained.

The settlement marks the end of individual local authority expenditure targets which have been abolished for 1986/87. They will be replaced by a tougher block grant system which provides a fairer method of containing expenditure. The precise mechanisms have in fact been developed in close consultation with the local authority associations and in particular take account of proposals put forward by the Welsh Counties Committee. The associations accept this as a reasonable price to pay for moving away from selective controls and for restoring a greater measure of local accountability. Under these arrangements for any given increase in expenditure there will be a reduction in grant. This means that a significantly higher proportion of costs will be borne by the ratepayer as

spending is increased. Conversely, the new system also offers positive financial rewards to ratepayers in authorities where spending is held down. There will be significant rating benefits for authorities who budget to reduce spending or who increase spending by less than the anticipated rise in inflation.

If local authorities spend in line with this settlement the amount of grant claimed will equal the amount of grant available. If aggregate spending exceeds the level of expenditure provision and there is an underclaim of grant the margin of resources will remain available for local government spending in Wales. I shall await local authorities' 1986/87 budget returns before deciding how any such surplus grant might be distributed. In setting their budgets councils should not assume that they will benefit from the redistribution of any resources released by overspending.

This settlement is a good one for Wales. The increases in relevant expenditure and in aggregate exchequer grant are higher than the forecast rate for inflation, and provide a realistic basis for next year's budgets. Rate increases, on average, need be no more than 3 or 4 per cent. Spending at the settlement level would be the same in real terms as spending in 1979-80. Local authorities can plan ahead secure in the knowledge that this provides the degree of stability in expenditure they have been seeking.

Both domestic and business ratepayers have the right to expect their local authorities to manage services, on their behalf, in an efficient and cost effective way. This settlement recognises that right and provides a solid framework for progress. I sincerely hope that local authorities will meet the challenge and the opportunities it offers for the benefit of the communities they seek to serve. I ask Members on all sides to support them in that task.

I commend my proposals for the Welsh Rate Support Grant Settlement to the House.