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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

21 July 1986

Dear Joan,

WELSH RATE SUPPORT GRANT SETTLEMENT 1987-88

... I enclose a draft of a statement my Secretary of State intends to make in the House of Commons after Questions on Wednesday. It reflects the agreement which has been reached with the Chief Secretary.

/ Copies go to the Private Secretaries to the Prime Minister, members of E(LA) and Sir Robert Armstrong.

Yours sincerely
Colin Williams

R C WILLIAMS

PS/Lord President
Privy Council Office
70 Whitehall
London
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PARLIAMENTARY STATEMENT - 23 JULY 1986 - SECRETARY OF STATE FOR WALES

WELSH RATE SUPPORT GRANT: 1987/88

With permission, Mr Speaker, I wish to make a statement about my proposals for the 1987/88 Rate Support Grant Settlement for Wales.

Local authorities have begun to plan their budgets for next year. To help them I am, today, circulating my proposals for the key elements of the Settlement. Copies of the material sent to Welsh councils have been placed in the Library and the Vote Office.

Before outlining my proposals I should like to comment briefly on the spending decisions of Welsh local authorities in the present year, particularly those of county councils.

The Rate Support Grant Settlement for 1986/87 made provision for overall total expenditure to increase by 4.9 per cent; or slightly more than the then forecast rate of inflation. County councils generally have budgeted to increase their spending in 1986/87 on average by 7.6 per cent, far in excess of provision and inflation. Their decision resulted in high and damaging rate rises. District councils' spending was broadly in line with the Settlement and they were able to limit their rate rises to an average of just over 5 per cent. Nevertheless ratepayers in the Principality have had to face a combined rate rise averaging nearly 12½ per cent in 1986/87.

Over 50 per cent of the rate income in Wales comes from non-domestic business ratepayers. High and unpredictable rate rises are bad for business, hinder expansion and put jobs at risk. Earlier this month the CBI in Wales wrote to council leaders asking them to recognise the needs of business ratepayers and to set low rates in 1987. I endorse and repeat that plea on behalf of all ratepayers.

When the Public Expenditure White Paper was published in January no decision had been taken about provision for local authorities' current expenditure for 1987/88 and the White Paper showed the same provision in cash terms for 1987/88 as for 1986/87. I now propose a current expenditure figure of £1,496 million. This is £67.8 million or 4.75 per cent more than authorities have budgeted to spend this year. I shall give details of the distribution between services of this sum in the autumn. Once again I intend to make additional provision for local authority capital spending and this too will be detailed in the autumn.

Total relevant expenditure for RSG purposes is expected to be £1,732 million. This is almost £135 million or 8.4 per cent more than total relevant expenditure at the main report stage for 1986/87. It is £97 million or 5.9 per cent more than the amount authorities have budgeted to spend in the current year.

Aggregate Exchequer Grant in support of relevant expenditure will be £1,157 million, £90 million or 8.4 per cent higher than the level in the main RSG Report for 1986/87. The grant percentage is 66.8 per cent, the same as that in the 1986/87 main Report. Comparisons with the grant position for 1986/87, taking into account the effect of authorities' budget decisions, will not be possible until the Supplementary Report for that year is published in the autumn.

In my discussions with the local authority associations about the 1987-88 settlement they have stressed to me the need for as much stability as possible between years in the grant distribution mechanisms. At the same time the mechanisms must be such as to exert pressure to keep spending in line with our plans. I have, therefore, decided to retain the basic block grant mechanisms used in the present year, with no expenditure targets for individual councils, and the slope of the grant related poundage schedule both above and below the 10 per cent threshold remaining unchanged; but GRE will be set in line with overall provision. The effect of this will be that at the margin of spending, decisions to increase will result in a cash reduction in grant and decisions to reduce will produce considerable rating benefits. Furthermore, I have decided that there will be no recycling of

any underclaim on grant in Wales in 1987/88. Wales will therefore be covered by the legislation to be introduced in the autumn announced yesterday by my Rt Hon Friend the Secretary of State for the Environment. Authorities will be able to plan ahead with certainty knowing that the grant they receive will be directly linked to their own spending decisions. This will assist in forward budgeting. They should know that any underclaim, which could only arise in the event of spending in excess of the settlement, will be lost to the authorities concerned and to Wales.

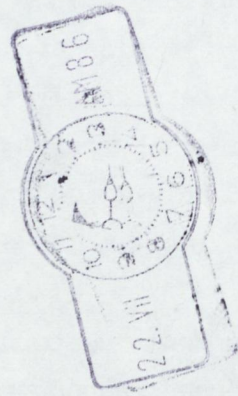
In his statement to the House yesterday my right hon Friend the Secretary of State for the Environment announced his intention to take action to prevent local authorities from circumventing the present local authority capital expenditure control system by using devices such as advance and deferred purchase agreements to incur prescribed expenditure in earlier or later years than would ordinarily be the case.

The requirement, which applies equally in Wales, became effective from midnight last night.

The Government's proposals for an improved capital control system were set out in the Green Paper 'Paying for Local Government'. Responses have been received from the local authority associations and other interested bodies in Wales. Together with my right hon Friend the Secretary of State for the Environment I am considering whether further modifications should be made to the capital control system.

These proposals clearly offer local authorities in Wales a further opportunity to plan for stable expenditure levels while enabling them to pass on real benefits in services and low rate increases to their ratepayers. I sincerely hope that they will do so.

I commend my proposals to the House.





PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

11 July 1986

Dear Robin,

Thank you for your letter of 2 July about the timing of the RSG announcement. Since you wrote, the Lord Privy Seal has seen the letters on this subject from the Welsh Secretary and the Chief Secretary to the Treasury.

As you know, we have been seeking to arrange Statements on the RSG not only for England, but also for Wales and Scotland. I believe that it would be generally convenient if we aim to make the Statement on the RSG for England on Tuesday 22 July. The RSG Statements for Wales and Scotland would follow, in that order, on Wednesday 23 July. As you will appreciate, there is considerable pressure on the business to be taken in that week, and there is little scope for flexibility in these arrangements.

I am copying this letter to the Private Secretaries to the members of E(LA), David Norgrove, Murdo Maclean, Rhodri Walters and Michael Stark.

Yours,
Alison

ALISON SMITH
Private Secretary

Robin Young Esq
Private Secretary to the
Secretary of State for the Environment

