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From The Minister of State

CONFIDENTIAL - CMO UNTIL 8 JULY 1988

7 July 1988

Dear Paul

RSG SETTLEMENT 1989/90 ETC

As you know, the plan is that my Minister of State will make an oral statement, following on from that of the Secretary of State for the Environment, in the House of Commons this afternoon.

As with England, the text of the statement cannot be finalised until after Cabinet. I am, however, attaching a draft statement and would be grateful for any comments which you or copy addressees may have by 11.00 am.

I am copying this to Alex Allan (Chancellor of the Exchequer's Office), Jill Rutter (Chief Secretary's Office), Alison Smith (Lord President's Office), Roger Bright (Secretary of State for the Environment's Office) and to Richard Wilson in the Cabinet Office.

*Yours
Ceri*

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DRAFT

PARLIAMENTARY STATEMENT 7 JULY 1988 - MINISTER OF STATE
LOCAL GOVERNMENT FINANCE IN WALES

With permission, Mr Speaker, I wish to make a statement about a number of matters concerning local government finance in Wales in the period leading up to April 1990.

My Rt Hon Friend has already announced that he and the Secretary of State for Wales are today issuing a consultation paper on our proposals to revise the arrangements for controlling local authority capital. [The paper has been placed in the Library and is available in the Vote Office: it is being sent to local authorities in Wales and to their local authority associations today.]

The new system will operate in Wales as in England. It will control borrowing and the use of credit rather than expenditure.

Local authorities have made representations over several years about the use of their capital receipts. Under the new system we now propose they will be able to spend their cash-backed capital receipts in whichever year they choose, once a proportion of those receipts has been applied to debt redemption. Local authorities will also be free to finance

capital expenditure from revenue contributions, subject only to the enhanced accountability they face following the introduction of the community charge. The system meets the needs of both central and local government. I believe local authorities in Wales will welcome it.

I turn now to Rate Support Grant and the local government finance system. My Rt Hon Friend has decided that it is appropriate to pave the way towards the introduction of the new local government finance system in 1990 by making changes to the present system which will give local authorities certainty about their grant entitlements for the coming financial year. We propose to achieve this by introducing a fixed grant for 1989/90.

As in England legislation will be brought forward during the next session to alter the basis on which grant will be paid. It is proposed that grant payments for 1989/90 should be calculated not on authorities' reported total expenditure, but on a level of total expenditure derived for each authority from information already available. It is envisaged that the assumed level will be derived from their likely total expenditure during the current year, projected forward and making any appropriate adjustments for changes in functions. It is also envisaged that in making such assumptions we shall use only that information about total

expenditure which was with the Department by midnight last night.

The RSG Report for 1989/90 will be made under existing legislation and laid before the House in the autumn. Once the Report has been approved and subject to Parliament approving the new legislation, grant will be paid on the new basis and will not depend upon authorities' spending decisions.

These proposals will ensure that authorities will receive the full amount of grant made available for 1989/90. There will be no grant reduction if authorities spend more than plans. This contrasts with 1987/88 and this year when local councils have budgetted to forfeit about £20 million.

For the current year, and for the two previous years, final Supplementary Reports have not yet been made. We envisage that for these three years authorities' grant entitlements should be calculated in general using total expenditure information which was with the Department by midnight last night.

Our proposals provide a basis for orderly transition to the new system and for bringing the existing system to a close. Without the proposed legislation, it would have been

keep their spending in line with our plans and [broadly level in real terms]. It includes full provision for the current costs which will be incurred next year in preparing for the introduction of the community charge.

We propose that aggregate Exchequer grant should be set at £1,316 million. This increase of 5% is ahead of inflation, is £63 million more than we provided in the Settlement for 1988/89 and about [£77 million] more than the amount claimed by local councils in the current year.

This provisional settlement gives certainty and offers a smooth path to the new system. Both grant and expenditure provision have been increased by more than the level of inflation. Ratepayers should therefore expect their councils to safeguard their interests by setting their budgets in line with the settlement. They will know that in doing so rates increases can be kept below the rate of inflation. I hope that all councils will ensure that rates increases are kept low. I hope too that they will continue to improve their efficiency and effectiveness to ensure that they use available resources for the full benefit of their communities.