

020

cc Pres
DC
AB
Quess

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switsfwrdd)
01-270 (Llinell Union)



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 (Direct Line)

Oddi wrth y Gweinidog Gwladol

From The Minister of State

7 July 1988

PA

Sar Paul

LOCAL GOVERNMENT FINANCE ANNOUNCEMENT: THURSDAY 7 JULY

Following decisions reached at Cabinet this morning, my Minister of State will be making an oral statement this afternoon announcing proposals for closedown and the Welsh Rate Support Grant settlement for 1989/90, and issuing a consultation paper on capital expenditure and finance.

I enclose a copy of my Minister of State's statement.

I am copying this letter and enclosures to the Private Secretaries to E(LA) members, Murdo Maclean and Rhodri Walters in the Chief Whip's Offices and to Trevor Woolley in Sir Robin Butler's office.

*Ysare
Ceri*

CERI THOMAS
Private Secretary

Paul Gray Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW 1



PARLIAMENTARY STATEMENT 7 JULY 1988 - MINISTER OF STATE

LOCAL GOVERNMENT FINANCE IN WALES

With permission, Mr Speaker, I wish to make a statement about 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 all forms 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 a proportion of accumulated and future cash-backed receipts will be applied to debt redemption or set aside to meet future capital commitments. Councils will be able to spend the balance of their receipts in whichever year they choose. 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 figure derived for each authority based on information about their present levels of total expenditure and projected forward. Appropriate adjustments will be made 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.



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 in 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 in grant.

Final Supplementary Reports for the current year, and for the two previous years, 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 necessary to seek the approval of the House to recalculate grant under the present system at least until 1991/92; it should now be possible under these proposals to make the last Supplementary Reports under the present system during 1989/90. I am sure that Hon Members will be relieved to hear that.

I refer now to next year's RSG Settlement for Wales. Local authorities in Wales are beginning to consider their budgets



for next year, and to assist this process I am today announcing our proposals for the key elements of the Settlement. We shall be discussing them in the usual way with the local authority associations and the Secretary of State will take account of their representations in reaching his decisions. In due course more detailed information will be circulated as usual to Welsh councils. Copies of this additional material will be placed in the Library and in the Vote Office.

We propose to set the level of provision for current expenditure at £1,785 million. This is 5.1 % or £87 million more than authorities are budgetting to spend in 1988/89. This increase is above the level of inflation and is very close to the forecast of spending made by the Expenditure Sub-Group. It should allow authorities to 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 being paid to local councils for the current year.



We will be discussing all these proposals with the Welsh Consultative Council on Local Government Finance on 12 July.

This is a generous provisional settlement. It gives local authorities 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 rate increases can be kept below the rate of inflation. I hope that all councils will ensure that rate 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.



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switsfwrdd)
01-270 0559 (Llinell Union)

Oddi wrth y Gweinidog Gwladol

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 0559 (Direct Line)

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*

CERI THOMAS
Private Secretary

Paul Gray Esq
Private Secretary to
the Prime Minister
10 Downing Street
London SW 1

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

necessary to seek the approval of the House to recalculate grant under the present system at least until 1991/92; it should now be possible under these proposals to make the last Supplementary Reports under the present system during 1989/90. I am sure that Hon Members will be relieved to hear that.

I refer now to next year's RSG Settlement for Wales. Local authorities in Wales are beginning to consider their budgets for next year, and to assist this process I am today announcing our proposals for the key elements of the Settlement. We shall be discussing them in the usual way with the local authority associations and the Secretary of State will take account of their representations in reaching his decisions. In due course more detailed information will be circulated as usual to Welsh councils. Copies of this additional material will be placed in the Library and in the Vote Office.

We propose to set the level of provision for current expenditure at [£] million. This is [%] or [£] million more than authorities are budgetting to spend in 1988/89. This increase is above the level of inflation and is very close [within %] to the forecast of spending made by the Expenditure Sub-Group. It should allow authorities to

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.