

CONFIDENTIAL



→ PM

Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-270 3000 (Switsfwrdd)  
01-270 0549 (Llinell Union)

ODDI WRTH YSGRIFENNYDD  
PREIFAT YSGRIFENNYDD  
GWLADOL CYMRU

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-270 3000 (Switchboard)  
01-270 0549 (Direct Line)

FROM THE PRIVATE SECRETARY  
TO THE SECRETARY OF STATE  
FOR WALES

20 July 1989

*Dear Paul,*

**LOCAL GOVERNMENT FINANCE IN WALES**

... I attach a final text on the statement which my Secretary of State proposes to make later today.

/ I am copying this letter and the statement to the Private Secretaries of members of E(LF) and to Murdo MacLean and Trevor Woolley.

*E K Davies*

PP E K DAVIES

Paul Gray Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON SW1A 2AA

PARLIAMENTARY STATEMENT, 20 JULY 1989 - SECRETARY OF STATE  
LOCAL GOVERNMENT FINANCE IN WALES

1. With permission, Mr Speaker, I should like to make a statement about local government finance in Wales for 1990/91.

2. From April 1990, as the House will know, the new local government finance system will be in operation. Domestic rates will have been replaced by the community charge; there will be a national non-domestic rate with a uniform rate poundage throughout the Principality, and there will be a new grant system. In order to assist local authorities in making their plans for the first year of the new system, I am today announcing my proposals for the overall level of support towards local authority revenue expenditure in Wales from grants and non-domestic rates.

3. My proposals have to be seen in the context of local authority spending in 1989/90. For the current year Welsh councils have budgeted to spend £1,850m, some £42m or 2.3% above the Government's plans. This year-on-year increase in spending of 8%, whilst closer to plans than that of their English counterparts, is too high.

4. I have taken account of the local authority associations' representations on the pressures for spending in 1990/91; I discussed their views with them in the forum of the Welsh Consultative Council on Local Government Finance on 12 July. But I have also had regard to the need for local authorities to seek and achieve efficiency savings, taking steps to control staffing costs and restricting budget increases to affordable levels.

5. In the light of all these considerations I propose that for 1990/91 the total of standard spending - under the new system this is the amount I consider appropriate for local authorities to spend in order to deliver a standard <sup>LEVEL</sup> order of services - should be set at £2,109m. This is an increase of £182m over the comparable figure for 1989/90, and represents an increase of £140m over authorities' budgeted expenditure for the current year.

6. I propose to set the level of Aggregate External Finance (which comprises three component parts: revenue support grant, the distributable amount of national non-domestic rates and certain specific grants towards current expenditure) at £1,733m. This is an increase of 8.6% over the equivalent figure for 1989/90, adjusted for changes in functions. In the autumn I will announce details of the division of Aggregate External Finance into its three component parts.

7. I turn now to the consequences of these proposals for the individual community chargepayer in Wales. The components of Aggregate External Finance, taken together, will represent some 82% of total standard spending. After taking account of community charge benefits, only 15% of local government spending will be financed by community charges. This broadly maintains the relative shares in the present financial year.

8. The community charge for standard spending in Wales will be £175, only £4 more than the average rate bill per adult in 1989/90. This reflects my commitment that no resources would be lost to Wales as a result of the change to the new system. Chargepayers will quickly understand the reasons for variations from this figure which, subject to the transitional arrangements I will describe in a moment, is achievable by each and every authority which spends in line with the Government's standard spending assessment.

9. I have considered again the extent to which the effects on chargepayers of the change to the new system should be phased in through an appropriate "safety-net". In the light of the favourable Settlement I am proposing, I have decided that it would not be right to freeze the position as it was in 1989/90 by using a full safety-net: this would be to delay the benefits of the greater accountability which the new system brings.

10. Instead, I propose to introduce a safety net which will move us substantially towards the new system in the first year. This means on the basis of present estimates that in 1990/91 in the Rhondda, for example, chargepayers would contribute some £50 less than the Welsh average of £175 towards their council's services. The arrangement will also benefit chargepayers in areas such as Newport and Cardiff who should contribute only around £20 to the cost of the safety net. These proposals strike the right balance between protection for those who in moving to the new system face the largest increases and reasonable contributions from those who stand to gain.

11. I will inform the House about the position of individual authorities following further consultation with the local authority associations about grant distribution arrangements including the precise details of the safety net. I agree with the local authority associations that it would be misleading to produce illustrative figures for 1990/91 in advance of that.

12. I turn now to the arrangements we have made to assist those on low incomes. Those on the lowest incomes in Wales who qualify for income support will be better off with the community charge than they were under the old rating system because income support payments will include an amount, which will be the same throughout Great Britain, to help pay the community charge. Due to the low levels of community charges in Wales people would actually be better off than if they got a 100% rebate.

13. For a couple on income support paying the community charge for standard spending of £175 each would get the maximum rebate of 80%, leaving them with a combined liability of £70. To help them meet this their income support will have been uprated by an annual amount equivalent to £119.60, leaving them £49.60 in pocket. We estimate that over 300,000 community chargepayers in Wales - about 14% - will qualify for the maximum assistance.

14. I will be bringing forward more detailed arrangements for all aspects of the Settlement in the autumn, following discussions with the local authority associations. But the proposals I have announced today offer chargepayers in Wales the prospect of community charges averaging £175 provided that their councils take responsible spending decisions. They offer authorities - particularly those who seek and achieve the efficiency gains which are available - a fair and realistic framework within which to set their budgets for 1990/91. If they budget sensibly, the rewards are self-evident.

20 JUN 02

CONFIDENTIAL

PG  
Duty  
bli



→ PA

Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-270 3000 (Switsfwrdd)  
01-270 0549 (Llinell Union)

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-270 3000 (Switchboard)  
01-270 0549 (Direct Line)

ODDI WRTH YSGRIFENNYDD  
PREIFAT YSGRIFENNYDD  
GWLADOL CYMRU

FROM THE PRIVATE SECRETARY  
TO THE SECRETARY OF STATE  
FOR WALES

MB

Prime Minister

2  
19 July 1989

See papers 7-9.

REC  
19/7

Dear Paul

**LOCAL GOVERNMENT FINANCE IN WALES**

... I attach a draft of the statement which my Secretary of State proposes to make tomorrow.

/ I am copying this letter and the statement to the Private Secretaries of members of E(LF) and to Murdo MacLean and Trevor Woolley.

Yours sincerely

Keik

E K DAVIES

Paul Gray Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON SW1A 2AA



CONFIDENTIAL

PARLIAMENTARY STATEMENT, 20 JULY 1989 - SECRETARY OF STATE  
LOCAL GOVERNMENT FINANCE IN WALES

1. With permission, Mr Speaker, I should like to make a statement about local government finance in Wales for 1990/91.
  
2. From April 1990, as the House will know, the new local government finance system will be in operation. Domestic rates will have been replaced by the community charge; there will be a national non-domestic rate with a uniform rate poundage throughout the Principality, and there will be a new grant system. In order to assist local authorities in making their plans for the first year of the new system, I am today announcing my proposals for the overall level of support towards local authority revenue expenditure in Wales from grants and non domestic rates.
  
3. My proposals have to be seen in the context of local authority spending in 1989/90. For the current year Welsh councils have budgeted to spend £1,850m, some £42m or 2.3% above the Government's plans. This year-on-year increase in spending of 8%, whilst closer to plans than those of their English counterparts, is too high.

4. I have taken account of the local authority associations' representations on the pressures for spending in 1990/91; I discussed their views with them in the forum of the Welsh Consultative Council on Local Government Finance on 12 July. But I have also had regard to the need for local authorities to seek and achieve efficiency savings, taking steps to control staffing costs and restricting budget increases to affordable levels.

5. In the light of all these considerations I propose that for 1990/91 the total of standard spending - under the new system this is the amount I consider appropriate for local authorities to spend in order to deliver a standard order of services - should be set at £2,109m. This is an increase of £182m over the comparable figure for 1989/90, and represents an increase of £140m over authorities' budgeted expenditure for the current year.

6. I propose to set the level of Aggregate External Finance (which comprises revenue support grant, the distributable amount of national non-domestic rates and certain specific grants towards current expenditure) at £1,733m. This is an increase of 8.6% over the equivalent figure for 1989/90, adjusted for changes in functions. In the autumn I will announce details of the division of Aggregate External Finance into its three component parts.

7. I turn now to the consequences of these proposals for the individual community chargepayer in Wales. The components of Aggregate External Finance, taken together, will represent some 82% of total standard spending, leaving only 18% to be found from community charges. This broadly maintains the relative shares in the present financial year. As a result, the community charge for standard spending in Wales will be £175, which reflects my commitment that no resources would be lost to Wales as a result of the change to the new system. Chargepayers will quickly understand the reasons for variations from this figure which, subject to the transitional arrangements I will describe in a moment, is achievable by each and every authority which spends in line with the Government's standard spending assessment.

8. I have considered again the extent to which the effects on chargepayers of the change to the new system should be phased in through an appropriate "safety-net". In the light of the favourable Settlement I am proposing, I have decided that it would not be right to fossilise the position as it was in 1989/90 by using a full safety-net: this would be to delay the benefits of the greater accountability which the new system brings.

9. Instead, I propose to introduce a safety net which will allow councils to move towards the new system in two steps. This means on the basis of present estimates that in 1990/91 in the Rhondda, for example, chargepayers would contribute some £50 less than the Welsh average of £175 towards their council's services. The arrangement will also benefit chargepayers in areas such as Newport and Cardiff who should contribute only around £20 to the cost of the safety net. These proposals strike the right balance between protection for those who in moving to the new system face the largest increases and reasonable contributions from those who stand to gain.

10. I will be bringing forward more detailed arrangements for all aspects of the Settlement in the autumn, following discussions with the local authority associations. But the proposals I have announced today offer chargepayers in Wales the prospect of community charges averaging £175 provided that their councils take responsible spending decisions. They offer authorities - particularly those who seek and achieve the efficiency gains which are available - a fair and realistic framework within which to set their budgets for 1990/91. If they budget sensibly, the rewards are self-evident; if they do not, it will be equally clear to their chargepayers that more needs to be done to achieve the prudent management of resources and value-for-money which should be the aim of every authority.