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(over taken by events)

BHP
23/7



Prime Minister

I have been discussing with Norman Lamont the terms of the Welsh local government finance settlement for 1991/92 and have now reached agreement with him that my settlement should be based on an AEF increase of 11.2%. Despite E(LG)'s conclusions at its recent meeting, the settlement does not exactly parallel that for England because the 11.2% increase in AEF I am able to announce falls short of the 12.8% agreed for England. This means a reduction of £28m in resources for Wales relative to England but I am prepared to defend an 11.2% increase on the grounds that the higher increase for England is required to provide greater protection through the safety net for English community chargepayers.

Norman has not, however, found it possible to agree to finance the 11.2% increase in full, notwithstanding the fact that the settlement last year was fully financed. Norman feels that if he did he would be obliged to deal similarly with the settlement for Scotland although the two countries have been treated differently in the past. I do not wish to comment on that except to say that his proposals put me in an impossible position. I see no means by which we could explain any settlement for Wales which is not fully financed. We are also faced with a clear and unequivocal commitment given on behalf of the Government by my predecessor that no resources would be lost to Wales as a result of moving to the new system. I am in no doubt that we must honour the commitment we have given; I have already made concessions which reduce the amount I am asking for from £64m to £23m.

We are determined to achieve major political success in Wales at the next General Election and you and I have already spoken about this. My considered judgement is that a settlement funded as I have proposed is the minimum I require to maintain and build on our success. In contrast we would pay very heavily indeed and lose our advantage if we were to proceed as Norman has suggested.

I have therefore written today to Norman making it clear that my statement is being made on the condition that as for England the settlement is to be financed as I have indicated. I cannot proceed with my announcement on any other basis.

I am sending a copy of this to the Lord President, Norman Lamont and to Sir Robin Butler.

DH

22 July 1990