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*From The Secretary of State for Wales*

The Rt Hon David Hunt MBE MP

22nd July 1990

*Dear Norman*

### WELSH RSG SETTLEMENT

I was very concerned to hear from you on Friday night that Malcolm Rifkind was not prepared to agree to the funding arrangements you and I had discussed unless Scotland received parity of treatment.

In our meetings we had considered the terms of a local government revenue settlement for Wales which would have enabled me to proceed with my planned statement to the House tomorrow. We had before us a package which we felt would have met both our positions. I made it absolutely clear to you on Friday, and during our earlier discussions, that I was prepared to reach agreement with you on a settlement which would enable us to honour the Government's commitment to the House that no resources would be lost to Wales as a result of the new system and which, as E(LG) has concluded, paralleled that for England; that remains my position.

You told me that following your conversation with Malcolm, you felt unable to proceed with the funding arrangements which we had discussed. I have not yet received your final proposals but I understand from officials that you are content for AEF to be set at up to £1939m. This is an 11.2% increase over 1990/91 and provides £28m less than I would require to match the overall AEF settlement E(LG) has agreed for England of 12.8%. It can only be described as being parallel with the 12.8% increase for England after deducting the extra amount you have provided to meet the cost of the English safety net.

I am prepared, reluctantly, to proceed on this basis. I have to say however that in the wake of Chris Patten's statement highlighting a fully funded 12.8% increase for England, we will face severe criticism.

You have also pressed me to limit the increase in TSS to 4% below that for England. I am prepared to accept your advice, although I remain convinced that a slightly higher increase would have enabled me to build on the better spending performance of Welsh councils in 1990/91, and to secure a level of actual spending in 1991/92 which is close to our plans.



As you will realise, however, I cannot accept your proposals for financing the settlement. You have suggested that the £145m increase in AEF should be financed in part from a simple formula consequential (£109m) of the 11.2% increase in the underlying AEF for England with the balance (£36m) from my block or my other resources. This proposal would be a major policy change that you and I have not had an opportunity fully to consider. I am not prepared to contemplate any change for this settlement. I propose instead that our officials should continue their discussions on financing arrangements for the future, including the suggestions put forward to yours by my Department, and come forward with appropriate financing proposals in good time for us to consider them for 1992/93.

Turning to transitional relief, which is outside AEF, I indicated during our discussion that in order to help you I was prepared to limit my planned expenditure for 1991/92 and 1992/93 so as to keep spending at the same level as in 1990/91. Unlike the position in England this would not enable me to claim that I had enhanced the scheme and I will be criticised for that, but I am nevertheless prepared to proceed as I have suggested. On the basis of a fully funded AEF settlement, I am therefore prepared to forego around £13m of the £20m Welsh share of the transitional relief increase for England which you have agreed should come to Wales.

A settlement for Wales wholly equivalent to that announced for England would have required additional funding of £64m. By expressing my willingness to defend the settlement we have agreed, the net cost to you of financing it (and transitional relief) is thus £23m.

I can therefore make my statement to the House tomorrow only on the clear conditions that

- i. the full amount of the agreed £145m increase in AEF for Wales will be added to my baseline. This follows the arrangements made for Wales for 1990/91 and is in line with those you have made for the English settlement for 1991/92.
- ii. That the 1991/92 settlement is the result of negotiations between us and is not based on formula consequential.

It is only on this basis that I will be able to honour the Government's commitments to the House that no resources would be lost to the Principality. I am sure that you and colleagues would not expect me to do otherwise.

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I am most anxious to go ahead with my statement as planned for today by the Lord President. A copy of it is attached. I am sending it under separate cover to members of E(LG). I am sending a copy of this letter to the Prime Minister, the Lord President, and Sir Robin Butler.

Rt Hon Norman Lamont MP  
Chief Secretary to HM Treasury  
HM Treasury  
Parliament Street  
LONDON

*Yours ever*

A handwritten signature in black ink, appearing to be 'N. Lamont', written in a cursive style.

PARLIAMENTARY STATEMENT, 23 JULY 1990 -  
SECRETARY OF STATE FOR WALES  
LOCAL GOVERNMENT FINANCE WALES

1. With permission, Mr Speaker, I should like to make a statement about my proposals for local government finance in Wales for 1991/92 and about the the review of the community charge.

2. The 1990/91 Settlement which my predecessor outlined in this House 12 months ago, gave Welsh councils an outstanding opportunity to budget sensibly and to offer Welsh chargepayers the prospect of community charges averaging only £173. Their response as every one knows was disappointing: spending in Wales rose on average by 12 per cent - indeed for district councils the increase was no less than 20 per cent - and well above any measure of inflation. The result was an average community charge some £60 higher than necessary.

3. This spending increase - whilst closer to plans than that of similar English authorities - is far too high. For 1991/92, therefore, whilst I have taken due account of the views of local authorities and their associations - expressed to me most recently at a meeting of the Welsh Consultative Council on Local Government Finance on 4 July - I have also had regard to the wider question of the level at which it would be right for authorities in

aggregate to spend next year in order to deliver an appropriate level of service, and I have considered too the need for a higher level of efficiency savings to be sought.

4. Taking all these factors into account, I consider it right to propose a level of total standard spending for 1991/92 which at £2436 million is some £316 million more than the equivalent figure for 1990/91. This represents an increase of 8 per cent over authorities' budgets for 1990/91.

5. I propose to set the level of Aggregate External Finance or AEF at £1939 million, 11.2 per cent higher than last year, and -after allowing for the financing of the safety net, which applies in England only - equal to the increase which my Rt Hon Friend the Secretary of State for the Environment announced for England last Thursday. This is a very substantial increase, and I urge councils to recognise this and to pass on the benefits of this injection of funding to their chargepayers, instead of seeking to boost spending still further. In the Autumn I will announce details of the split of AEF into its three component parts, namely revenue support grant; the distributable amount of national non-domestic rates; and certain specific grants towards current expenditure.

6. Under my proposals the community charge for standard spending in Wales will be £228. This is, I emphasise, an entirely achievable figure given the generous increases I have proposed in

spending and Exchequer grant; but if it is to be the average actual charge in Wales for 1991/92 councils will have to budget responsibly and spend in line with plans. Chargepayers will expect them to do so and will quickly realise that a higher average level of charges will be directly attributable to overspending by their local authorities.

7. Protection for chargepayers from unnecessarily high spending and charges will, I hope, be unnecessary. But local authorities should know that I am fully prepared to step in to protect their chargepayers by making vigorous use of my chargecapping powers. Next year these will be applied both to excessive spending in relation to standard spending assessments or SSAs, and to excessive year-on-year increases in spending by those authorities spending above their SSA for 1991/92. I propose specifically for this year to give an advance indication of the criteria I will use in making decisions about chargecapping, so that authorities are aware of them at the time they take their budget decisions.

8. Members will know that the Government has reviewed the operation of the community charge and has reaffirmed its commitment to the basic principle of the new system, that almost all adults should contribute towards the cost of local services. Within that framework, however, I have proposals for a number of changes in the operation of the system.

9. For the standard community charge, which applies where a domestic property is no-one's sole or main residence, I propose to reduce the maximum standard charge which local authorities have discretion to levy in a number of exceptional cases. I have in mind, for example, those who are required as a condition of employment to live in a particular property; those people in houses with an empty "granny flat"; and those whose house is empty because they have gone to care for someone else. I also propose to help those who are having difficulty selling a property, by extending the period during which a zero charge must be levied. All my proposals should, subject to consultation, be in operation from 1 April 1991, and I trust they will be widely welcomed. They are set out in a consultation paper which was issued to local authorities and to other interested parties last Thursday; copies have been placed in the Vote Office and the Library of the House.

10. I turn now to the position of small businesses. There has been concern about those who live "over the shop", who pay rates on their business and are also liable to pay the community charge. There is no fundamental issue of principle here: all business property is liable to rates, and all adults are liable to a community charge. I do, however, recognise, that this group of businesses may need more time to adjust to the new system, and so I intend to amend the business rate transitional arrangements, for small composite hereditaments only, to limit increases from 1991/92 to 10 per cent in real terms instead of the current maximum of 15 per cent.

11. The present exemption from non-domestic rates for people who make bed and breakfast accommodation in their own homes available for less than 100 days a year has also caused some difficulty. I therefore propose to change this rule from 1 April 1991 and will shortly issue a consultation paper outlining a range of options based on the amount of accommodation made available rather than the time for which it is available.

12. Finally, I have considered again the operation of the distinctively different system of community charge transitional relief in Wales. The £20 million provided for 1990/91 has assisted some 750,000 Welsh chargepayers and provided transitional relief in more than 300 qualifying communities, with reductions of up to £93 available to assist chargepayers in areas where rates bills were traditionally low. The scheme has been outstandingly successful in channelling relief into the communities where it has been most needed, and thereby cushioning the impact of the new system where this has been appropriate.

13. It had originally been intended that lower levels of transitional relief would be available in 1991/92 and 1992/93, with the scheme phased out by the end of that year. I now propose that there should be a postponement of this phasing out, so that the sum available will remain at £20 million for 1991/92 - and, indeed, for 1992/93. This is an increase of 50% above planned levels. The scheme will also be extended to 1994/95. In all other respects the scheme will remain unchanged.



14. These, then, are my proposals for the operation of the local government finance system in Wales in 1991/92. The Settlement I have proposed honours the commitment made by my predecessors that no resources would be lost to Wales as a result of moving to the new system. I am, of course, ready to consider all representations on the proposed Settlement and on the changes to the system which I have outlined; and I will be consulting the local authority associations in detail on my proposals. I shall then bring forward more detailed arrangements for all aspects of the Settlement in the autumn. But it is only right to emphasise that this Settlement offers substantial increases in total standard spending and in grant : with greater realism and responsibility from Welsh local government in setting budgets for 1991/92 charges in Wales should average only £228. I remind Welsh authorities that the position of the chargepayer - their customer - is paramount, and I look to them to recognise that simple fact.