

PRIME MINISTER

WELSH LOCAL AUTHORITY SETTLEMENT

I indicated that there was an unresolved dispute between the Welsh Secretary and the Chief Secretary about the terms of next year's local authority settlement for Wales.

Both Ministers met the Lord President at 1.15 p.m. today. The outcome was a clear victory for the Treasury.

The settlement announced this afternoon was as follows:-

- (i) AEF support for Welsh local authorities will rise by 11.2% next year; this is a little less than the 12.8% increase already announced for English local authorities;
- (ii) nothing will be said about how this increase is to be financed.

The real gain for the Treasury is in the second point above. Under the operation of the so-called block formula, the Welsh will be short by some £23 million. This is because the cost of the proposed 11.2% increase in AEF for Wales exceeds (by £23 million) the increase allowed in block resources under the application of the block formula rules.

The Welsh Secretary wanted this £23 million funded by the Treasury. The Treasury wanted to give nothing at all - so that the Welsh Office would be forced to make savings on other central government programmes within the block.

The Welsh Secretary has been reluctantly persuaded to accept that he will get nothing for the present. The Chief Secretary has indicated privately that, when the PES negotiations are coming to an end in the autumn, he will look to see whether a small amount (no more than £15 million) might be made available to top up the Welsh block.

The settlement therefore squeezes the Welsh block. A similar squeeze is also being applied to the over-provided Scottish block.

This is an important breakthrough for the Treasury and a useful early victory in the PES negotiations.

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