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BHP

FROM: BARRY H POTTER (LG1)
DATE: 12 July 1989
x4790

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Monck
Mr A J C Edwards
Mrs Lomax
Miss Peirson
Mr A White
Mr A Hudson

*ch / To be aware and to
note paras 11-13.*

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LOCAL AUTHORITY CURRENT SETTLEMENT: WALES

Mr Hudson, Mr Rutnam and I discussed the 1990-91 local authority settlement for Wales with Welsh Office officials yesterday.

2. As in Scotland, the Treasury objective was to replicate the settlement for England on a strictly comparable basis. We were able to reach a provisional agreement with Welsh Office officials which is being put to you and Mr Walker separately today.

3. However I understand that Welsh Office officials have already discussed the offer informally with Mr Walker; and he is content, subject to Mr Rifkind's agreement to the similar proposals for Scotland, if you are also prepared to settle.

The Proposed Settlement

4. The Treasury objective was to agree the same settlement for Wales as had been approved for Scotland. In this instance, it meant agreeing that the Welsh should have an increase in AEF of 6.8%. That is the increase in notional AEF which has been agreed for Scotland.

5. As you know it is below the increase in AEF agreed for England which was 7.8%. This is because we successfully argued with Welsh Office officials that their local authorities had no entitlement to a share of the specific grants for ILEA and for areas of low rateable value in the North. These items are

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included within the AEF quantum but are essentially for distributional purposes. Though the point was disputed fairly bitterly, Welsh Office officials were ultimately prepared to concede.

6. The proposed package in Wales is therefore as follows:

	£million	
	1989-90	1990-91
AEF	1623	1733
Total standard spending	1952	2109
CCSS	153	175

The Welsh Block

7. The settlement this year had no implications for the Welsh block. It was agreed that AEF would be settled for this year as a quantum and then the relevant extra sum added to the Welsh block. For the future we have agreed to look at whether a formula basis might be useful from 1991-92 onwards.

Conclusion

8. I recommend the above package to you. AEF would be increased by £110 million over 1989-90 (6.8%) to a total of £1733 million. The community charge for standard spending would be £175; and if Welsh local authorities were to raise budgets by 7%, community charge would average around £187.

9. This is a tough settlement, the toughest that would be consistent with that agreed for England. The Welsh are reluctantly prepared to accept it. But they have one anxiety: there is clearly a suspicion that Ministers may decide later to add to the AEF settlement, once political pressures emerge.

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10. We of course argued that there could be no question of reopening the settlement and that once the statements have been made next week, the proposals will go forward to Parliament in November unchanged. But the Welsh were not fully convinced. We can be sure that, in the event of the basic settlement being reopened, the Welsh would bid for their corresponding share. So would the Scots. Both may press for an assurance on that point. We will need to be suitably circumspect in replying.

Longer Term Implications

11. It may be helpful to flag up one thought for the future. CCs in Wales are going to be £100 or so lower than in Scotland and England. The gap is not defensible in terms of income or GDP per head indicators. As we move increasingly over the next few years to harmonised business rate poundages in England, Scotland and Wales, and with community charges in Scotland and England reasonably close to each other at standard spending, the very low community charges for standard spending in Wales - about one-third lower - will look increasingly unfair and indefensible. The general taxpayer will be subsidising the community chargepayer in Wales.

12. In my view the right solution is to aim for the optimal distribution of AEF resources between all three countries as well as within. On this model the distribution of grant would be such that at standard spending, the community charge would be identical in all three countries and so would the business rate poundage.

13. This is a thought for future work only. But LG might do some preliminary work on the scope for squeezing AEF in Wales to achieve the objective. No doubt ST will have views on whether it makes sense in their wider strategy on the Scottish and Welsh programmes. For the moment, the gap may also provide useful ammunition in the Welsh bilateral.

BHP

BARRY H POTTER

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FROM: MISS C EVANS
DATE: 13 July 1989
EXTN: 4339

MR POTTER

cc: Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Monck
Mr A J C Edwards
Mrs Lomax
Miss Peirson
Mr A White
Mr A Hudson

MP

LOCAL AUTHORITY CURRENT SETTLEMENT: WALES

The Chief Secretary was grateful for your minute of 12 July. As with the Scottish settlement you have negotiated, he regards this as an excellent settlement and was surprised to hear that the Scottish and Welsh Secretaries have signed up. He agrees that if the basic English settlement is re-opened there will be no option but to look again at the Scottish and Welsh settlements too. He agrees that we should use paragraphs 11 and 13 in the Welsh bilateral and that LG should do the preliminary work suggested in paragraphs 13.

C. Evans

MISS C EVANS
Private Secretary

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From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

CHIEF SECRETARY	
REC.	JUL 1989
Mr POTTER	
C/Sir AMDDAETAW	
Mr Ansar, Mr Moor	
Mr Edwards, Nestorax.	

13 July 1989

mp

John Major

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LOCAL AUTHORITY SETTLEMENT 1990/91: WALES

This is to confirm, following discussions between our officials, that I am prepared to accept the settlement you have offered to Wales for 1990/91. The settlement will give an AEF of £1733 million and standard spending will be £2109 million.

In the event that AEF for England is increased beyond the £23.1 billion agreed by E(LF) then I hope you will agree to reconsider this settlement in order to ensure that Wales receives fair treatment in all the circumstances.

John Major

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON SW1P 3AG