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DN

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Mark Addison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Pomie Ninter

11 December 1986

Concurred with the
draft statement, apart from
the odd drafting of para 7?

Yes - I should
have thought
the sentence required
a separate
sentence
in para

DRS 12/12

Dear Mark,

As you know, my Secretary of State is to make an oral statement
next Tuesday, 16 December about the proposed legislation to deal
with RSG expenditure definitions.

I enclose a draft statement, which is I think self-explanatory. We
have square-bracketed the final sentence, since the Welsh
statement was, I believe, discussed at Cabinet today.

I should be grateful for comments, to reach me by lunchtime on
Monday 15 December. I am copying this letter and enclosure to the
private secretaries to other members of E(LA), to the Attorney
General, to the Chief Whips in both Houses and to Sir Robert
Armstrong.

Yours,

R U YOUNG

Private Secretary

DRAFT STATEMENT

LOCAL GOVERNMENT: PROBLEMS WITH THE DEFINITION OF RELEVANT AND TOTAL EXPENDITURE

1. With permission Mr Speaker I would like to make a statement about the calculation of expenditure for rate support grant purposes.
2. Relevant and total expenditure are two key concepts which are basic to the local government finance system in England and Wales.
3. Since 1981 relevant and total expenditure have been calculated on the basis of the expenditure charged to a local authority's Rate Fund Revenue Account. This expenditure includes contributions from that account to, for instance, the Housing Revenue Account and other special funds. Contributions from such funds and accounts to the Rate Fund Revenue Account have been regarded as income reducing relevant and total expenditure.
4. This approach was adopted in 1981 in response to the views of the local authority Associations.
5. I have looked closely at the definitions of relevant and total expenditure because of some anomalies in the returns of expenditure received from a number of authorities. I was concerned that the accepted approach, despite the local authority Associations' desire for it, did not correspond to the statute, and I sought legal advice about this. That advice made it clear that the Department's treatment of expenditure was incorrect in law. Transfers between funds and accounts within the Rate Fund are not expenditure: expenditure only takes place when an authority has liabilities in the outside world and meets these from the general Rate Fund. A second opinion confirmed the advice.
6. I must accept that advice. It means that past decisions which involved the concepts of total or relevant expenditure are

Seem to?

put in doubt, and that it would be quite improper for me or my Right Hon Friend the Secretary of State for Wales to take further decisions on the present basis. Until this matter is put right, we cannot therefore make any further RSG Reports, including the main Report for 1987/88, or complete the rate limitation process.

7. To deal with this highly technical problem, the Government will therefore be bringing urgent legislation before Parliament which will validate for England and Wales all past decisions involving the use of relevant or total expenditure and allow decisions to be properly taken for the remainder of the present Rate Support Grant system in line with the practice which has hitherto~~d~~ been adopted. Because the Bill is unlikely to receive Royal Assent in time to allow for the normal timetable on rate limitation, I propose to include in it provisions to set rate and precept limits for designated authorities by formula. The Bill is designed to make no changes in policy, but simply to apply existing policy within a tight timetable.

8. My Right Hon Friend the Secretary of State for Scotland administers the Scottish Rate Support Grant under separate legislation and the same problem does not arise. Some more minor difficulties in Scottish practice which have come to light will, however, also be remedied in the proposed legislation.

9. Authorities will be concerned, in the light of my statement, about the immediate position for 1987/88 and on outstanding Supplementary Reports. When the House returns in January I hope to announce my final decisions on the 1987/88 settlement for England and the Supplementary Reports for 1986/87 and 1985/86. The Bill will provide that those decisions are effectively frozen until I can formally ask the House to approve them. I shall make the relevant Reports immediately on Royal Assent to the validating Bill. Authorities will therefore be able to plan their budgets and rates for 1987/88 with confidence on the basis of my statement in January. Also in January my Right Hon Friends and I will inform designated authorities of the rate and precept limits which Bill will set.

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 Fresh
 Section in
 Wales

10. My Department is today writing to all authorities and their Associations to explain the position. My Rt Hon Friend the Secretary of State for Wales will be making a statement on the Welsh position later this afternoon.

SECRET

FILE 11
DAS



10 DOWNING STREET
LONDON SW1A 2AA

cc CWO H/L/H/L
CO DOT LPO
LOD SO
M/S PCO C/O
DRJ P/O
CAL HO
DMS HO
WO DTI

From the Private Secretary

15 December 1986

Dear Robin,

The Prime Minister has considered the draft statement about the proposed legislation to deal with RSG expenditure definitions which was attached to your letter to Mark Addison of 11 December. She had two comments.

First, in paragraph 5 she has suggested amending the second sentence to read: "I was concerned that the accepted approach ... did not seem to correspond to the statute ..."

Secondly, in the final sentence of paragraph 7, the reference to the timetable sits oddly with the rest of the sentence. The Prime Minister has suggested that the timetable may need a separate sentence or paragraph.

I am copying this letter to the Private Secretaries to members of E(LA), to the Attorney General, to the Chief Whips in both Houses and to Sir Robert Armstrong.

Yours,
David

D R NORGROVE

R. U. Young., Esq.
Department of the Environment

SECRET

16 DECEMBER 1986

cc. DW
MFA
PIU
DIC
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6. I must accept that advice. It means that past decisions which involved the concepts of total or relevant expenditure are put in doubt, and that it would be quite improper for me or my Right Hon Friend the Secretary of State for Wales to ask the House to take further decisions on the present basis. Until this matter is put right, we cannot therefore make any further RSG Reports, including the main Report for 1987/88, or complete the rate limitation process.

7. To deal with this highly technical problem, the Government will therefore be bringing urgent legislation before Parliament which will validate for England and Wales all past decisions involving the use of relevant or total expenditure and allow decisions to be properly taken for the remainder of the present Rate Support Grant system in line with the practice which has hitherto been adopted. Because the Bill is unlikely to receive Royal Assent in time to allow for the normal timetable on rate limitation, I propose to include in it provisions to set rate and precept limits for designated authorities by formula. The Bill is designed to make no changes in policy, but as far as possible to apply existing policy within a tight timetable.

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9. Authorities will be concerned, in the light of my statement, about the immediate position for 1987/88 and on outstanding Supplementary Reports. When the House returns in January I hope to announce my firm intentions for the 1987/88 settlement for England and the Supplementary Reports for 1986/87 and 1985/86. The Bill is designed to fulfil those intentions. I shall make the relevant Reports immediately on Royal Assent to the validating Bill. Authorities will therefore be able to plan their budgets and rates for 1987/88 with confidence on the basis

of my statement in January. Also in January my Right Hon Friends and I will inform designated authorities of the exact rate and precept limits which will be set for them in accordance with the provisions of the Bill.

10. My Department is today writing to all authorities and their Associations to explain the position.

ccBG



SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

16 December 1986

Den Little

NBE

... It has been agreed that immediately following Nicholas Ridley's Statement to the House on Rate Support Grant and the Local Government Finance Bill, I will make a Statement setting out the position in Wales. I enclose a copy of the Statement I propose to make. It summarises the implications for Wales of the Bill, and also, because I have completed my consultations on the details of the settlement, sets out my intentions for the 1987/88 Welsh Rate Support Grant Settlement.

/ I am sending a copy of this to the Prime Minister, the Lord Privy Seal, the Chief Secretary, Treasury, the Secretaries of State for the Environment and for Scotland, the Chief Whips of both Houses, to other members of E(LA) and to Sir Robert Armstrong.

Over
NBE

The Rt Hon Viscount Whitelaw PC CH MC
Lord President of the Council



CONFIDENTIAL

PARLIAMENTARY STATEMENT - SECRETARY OF STATE FOR WALES - WELSH RATE SUPPORT GRANT

With permission, Mr Speaker, I wish to make a statement about the Welsh Rate Support Grant.

I will deal first with the implications for Wales of the Statement which has just been made to the House by my Rt Hon Friend the Secretary of State for the Environment. The definition of relevant and total expenditure adopted in rate support grant reports for Wales since 1981 with the agreement of local government in Wales is, for the reasons outlined by my Rt Hon Friend, now seen as not meeting statutory requirements and being incorrect in law. Until this is put right I am unable to make further RSG reports. The urgent legislation being brought to the House will therefore validate for Wales as well as for England all past decisions involving the use of total or relevant expenditure and allow future decisions to be taken in line with previous practice.

I wish to do everything possible to minimise difficulties for local government so that they can proceed with budgeting and rating for the coming financial year, I am today giving to the Welsh Consultative Council on Local Government Finance and to all Welsh County and District Councils full details of my intentions for the main Report for 1987/88 and the Supplementary Report for 1986/87. A copy of my statement has been placed in the Library. The Supplementary Reports for 1984/85 and 1985/86 will be the subject of further consultation. My intentions take account of the views expressed to me by the Welsh Local Authority Associations and individual councils during consultations. They are, of course, dependent upon the approval by the House of these Reports, which will be laid upon enactment of the Local Government Finance Bill.



It is very important that Councils should feel able to proceed with their planning over the coming months in the knowledge that my intentions are firm. They, therefore, have my assurance that it is my intention not to take into account in the Main Report for 1987/88 and the Supplementary Report for 1986/87 any new data or representations received after 3 December; the Bill will provide for this. It can, therefore, be assumed for the purpose of calculating grant entitlements that the information I am making available today will be reflected in those reports. New or revised data will be taken into account in supplementary reports for the years concerned, as will be any additional resources for teachers' pay.

I turn now to the detail of my intentions for 1987/88. Provision for relevant expenditure will be £1,734 million or over 6% higher than budgeted spending in 1986/87; current expenditure will be 4.8% higher or more than 1% above the expected rate of inflation. Aggregate Exchequer grant will be £1,157m, unchanged from July; domestic rate relief remains unchanged at 18½p in the £. Block grant will be £901.7m.

In my discussions with the local authority associations about the 1987/88 settlement they stressed the need for stability between years in the grant distribution mechanisms. With this in mind I intend to retain the same basic block grant mechanisms used in the present year with no expenditure target for individual councils, and to leave unchanged the slope of the grant related poundage schedule both above and below the 10% threshold. The total of authorities' GREs will be set in line with overall provision. At the margin, decisions to increase spending will result in a cash reduction in grant for most authorities, while decisions to reduce spending will produce considerable rating benefits.

Grant recycling was justified in 1986/87 as an interim measure during the first year of operation of the new mechanisms following the abolition of targets for individual local authorities. This measure is no longer appropriate and I intend that the settlement for 1987/88 should give the further certainty of ensuring that each authorities' grant entitlement will depend solely on its own spending decisions and not be affected by decisions taken by other authorities. My Rt Hon Friend the Secretary of State for the Environment and I have already indicated that we propose to introduce legislation in the near future to abolish recycling.



In the first supplementary report for 1986/87 I intend to recycle block grant in full. Changes to aggregate relevant expenditure following from increases in police pay, expenditure on midday supervision in schools and GCSE will increase block grant by £1.3 million and the total of specific grants will be increased to £174.7m. The contribution of Welsh local authorities to the England and Wales further education pool will be £3.5m. The total of local authorities' GREs for the year will be reset in line with aggregate expenditure provision but I intend to introduce multipliers so as not to affect authorities' block grant entitlements.

The settlement I intend to make for 1987/88 is a very good one for Wales. The increases in all the main components - relevant expenditure, current expenditure, aggregate Exchequer grant and block grant - are well above the forecast rate of inflation.

I am sure that there will be general agreement that central and local government should work together to ensure that spending and rating decisions for next year are not hindered by the delay in our being able to make RSG reports. Today's announcement of my intentions will enable Welsh local authorities to reach their decisions in an orderly way. There can be no doubt that in so doing they must have regard to the interests of ratepayers and taxpayers. I am confident that the Welsh Local Authority Associations and all Welsh councils will recognise this and will respond constructively to the opportunity they now have to budget for very low rate rises indeed.