

cc B4



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David Norgrove Esq
Private Secretary to
The Prime Minister
10 Downing Street
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Prime Minister!
Content, subject to
colleagues?

20 July 1987

Please look at
y first page
otherwise
Leslie

Dear David,

DLW
20/7.

RSG SETTLEMENT ANNOUNCEMENT

Following the conclusions of E(LA) my Secretary of State would like to make an oral statement on Thursday, 23 July, outlining the proposals for the Rate Support Grant Settlement and Rate Limitation for 1988/89.

I attach a draft of such a Statement, and should be grateful for any comments by lunch on Wednesday 22 July.

I am copying this letter and enclosure to the Private Secretaries to E(LA) members, Murdo MacLean and Rhodri Walters in the Chief Whips' Offices and to Trevor Woolley in Sir Robert Armstrong's Office.

Yours,
Robi.

R U YOUNG
Private Secretary

DRAFT STATEMENT

With permission. I should like to make a statement about local government finance for 1988/89.

It is likely that this will be the one from last Rate Support Grant Settlement. ^{assuming the legislation proposed for this year is enacted.} By 1990 the new system, which will be both fairer and easier to understand will take its place. (Most Hon and Rt Hon Gentlemen in the House, myself included, will heave a sigh of relief when that happens.) The level of an authority's spending will be clearly and directly reflected in the level of its community charge.

We must, however, bear with the present arrangements for two more years and my proposals for 1988/89 are as follows.

I propose to set current expenditure provision at a level which will allow most authorities to increase spending by about the rate of inflation, with an additional element to reflect the cost of pay in those areas - education, police and fire - where the Government has direct influence. With rate and precept limited authorities spending at their expenditure levels, this gives an aggregate figure for local authority current expenditure of £27.538bn. That is a cash increase of £838m on the gross provision for 1988/89 published in the Public Expenditure White Paper, and represents a 7% increase on the gross amount provided for the current year.

CONFIDENTIAL.

Authorities continue to spend more than I believe they need to. 1987/88 saw no change for the better with local spending again increasing at a rate well above the rate of inflation - my present estimate is 9%, with inflation at about 4½%. I therefore propose to maintain a margin between the total of grant related expenditure and expenditure provision. Authorities owe it to their ratepayers - and prospective community charge payers - to do all they can to keep spending down. The measures now before the House in the Local Government Bill will make a big contribution. Authorities need not wait for enactment to start implementing more cost efficient practices. Authorities should concentrate on reducing their pay roll bills - both by negotiating settlements which reflect the continuing low rate of inflation, and also by reversing the recent steady upward drift in manpower, which has risen about ¾% over the last year.

I propose to provide authorities with £13.775bn in aggregate Exchequer grant. This is a cash increase from 1987/88 of £750m or 5¾%. It will maintain the grant percentage at the same level as this year after taking account of the additional grant we made available for teachers' pay - 46.2% of relevant expenditure. I do not propose any major changes in the mechanisms for grant distribution. The present arrangements, with no grant recycling, will continue to provide tough pressures on authorities who spend up.

I believe these proposals provide a fair framework in which authorities can operate next year. It will mean that if they do not spend more than the realistic provision that we have made authorities should on average have no need to increase rate bills above inflation - though as always there will inevitably be considerable variations around that average. For the position of individual authorities, Hon Members will need to wait until the announcement of my detailed proposals in the autumn. But I emphasise that actual rate bills will depend on the spending decisions of each individual authority.

I am today laying before the House a report setting out how authorities will be selected for rate limitation next year. I am selecting authorities not selected in 1987/88 whose budgets are at least 12.5% above GRE and show growth of at least 6% since 1986/87. I am reselecting those authorities that were selected in the current year whose budgets are at least 12.5% above GRE.

On these criteria, five authorities not selected in 1987/88 - Ealing, Kingston upon Hull, Liverpool, Manchester and Waltham Forest - are selected. Twelve authorities are reselected - Basildon, Camden, Greenwich, Hackney, Haringey, Lambeth, Lewisham, Middlesborough, Newcastle, Southwark, Thamesdown and Tower Hamlets. Together with the authorities subject to automatic precept control under the Local Government Act 1985, this will mean that, in all, the Government will next year be limiting the rates or precepts of 37 authorities with expenditure totalling over £4bn.

I am today also setting the expenditure levels for the 17 rate-capped authorities. For reselected authorities, there will be a cash standstill on implied expenditure levels for 1987/88 with an allowance for the costs of the teachers' pay settlement in 1988/89 where appropriate. All of the five newly selected authorities have budgeted in 1987/88 for a significant increase in spending. Therefore I am setting their expenditure levels at a 6% increase over their 1986/87 budget with again an allowance for teachers' pay where appropriate.

I am, of course, open to representations for redetermination of expenditure levels. Last year I indicated that, where an application for redetermination of an expenditure level was made on certain limited grounds I did not intend to use my powers under the Rates Act either to reduce the expenditure level or to impose conditions following an increase. The Rates Act procedures are now well established and I should make clear from the start of this year's round that I will not be giving any such undertaking.

My Right Hon Friends the Secretaries of State for the Home Department, Education and Science, and Transport will be making separate announcements about expenditure levels for the Inner London Education Authority and the joint authorities which are subject to precept limitation under the Local Government Act 1985.

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file



cc: BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 July 1987

Dear Robi,

RSG SETTLEMENT ANNOUNCEMENT

The Prime Minister has seen the draft statement attached to your letter to me of 20 July. Her comments concern only the second paragraph. She suggests that the first sentence should be amended along the lines:

"It is likely that this will be the one from last Rate Support Grant settlement, assuming that the legislation to be brought forward by the Government in the autumn is enacted."

The third sentence of that paragraph beginning "Most Hon. and Rt. Hon. Gentlemen ..." should be omitted.

The Prime Minister is otherwise content, subject to the views of colleagues.

I am copying this letter to the Private Secretaries to members of E(LA), to Murdo Maclean and Rhodri Walters (Chief Whip's Offices) and Trevor Woolley (Cabinet Office).

y
Jns,

David

David Norgrove

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

085

Mr. Bob Cryer (Bradford, South): Is the Leader of the House aware that British Rail has denied that the Settle-Carlisle line—80 miles of spectacular scenery—will be flogged off to a private consortium? If any announcement is made during the recess, it will be exposed as a shabby conspiracy of deception. To avoid that, will he ensure that there is a statement tomorrow by the Secretary of State for Transport about the retention of the line to clarify the position, or that there is an answer to my question that is down for answer tomorrow? If that is not possible, will he assure the House that there will not be a statement when the House is not sitting and that the Minister will wait until we return before making any statement so that he is accountable to the House?

Mr. Wakeham: I am glad to have the hon. Gentleman's agreement that everything that one reads in *The Guardian* is not necessarily true. I do not think I can add anything other than to say that I will refer the matter to my right hon. Friend the Secretary of State for Transport.

Mr. Michael Shersby (Uxbridge): Is my right hon. Friend aware that the London air traffic control centre at West Drayton operates at a very high standard? Will he consider the possibility of a debate at an early date to reassure the public that nothing serious is amiss with our air safety measures?

Mr. Wakeham: I am glad to hear my hon. Friend's remarks about West Drayton. I will certainly see what I can do about a debate.

Rate Support Grant (England)

4.4 pm

The Secretary of State for the Environment (Mr. Nicholas Ridley): With permission, I should like to make a statement about local government finance for 1988-89.

With the passage of the Government's forthcoming legislation, this will be the penultimate rate support grant settlement. By 1990 the new system, which will be both fairer and easier to understand, will take its place. The level of an authority's spending will be clearly and directly reflected in the level of its community charge.

We must, however, bear with the present arrangements for two more years and my proposals for 1988-89 are as follows.

I propose to set current expenditure provision at £27.538 billion. This is a cash increase of £838 million on the provision for 1988-89 published in the 1987 public expenditure White Paper, and represents a 7 per cent. increase on the gross amount provided for the current year. It will allow non-rate-capped authorities to hold their spending broadly level in real terms. Rate and precept limited authorities will be set expenditure levels which imply real reductions in spending in most cases.

Authorities continue to spend more than I believe they need to. I therefore propose to maintain a margin between the total of grant related expenditure and expenditure provision. Authorities owe it to their ratepayers—and prospective community charge payers—to do all they can to keep spending down. The measures now before the House in the Local Government Bill will make a big contribution. Authorities need not wait for enactment to start implementing more cost efficient practices and contracting out more services. Authorities should concentrate on reducing their pay-roll bills—both by negotiating settlements which reflect the continuing low rate of inflation, and also by reversing the recent steady upward drift in manpower, which has risen by about $\frac{3}{4}$ per cent. over the last year.

I propose to provide authorities with £13.775 billion in aggregate Exchequer grant. This is a cash increase over 1987-88 of £750 million or $5\frac{3}{4}$ per cent. It will maintain the grant percentage at the same level as this year after taking account of the additional grant we made available for teachers' pay—46.2 per cent. of relevant expenditure. I do not propose any major changes in the mechanisms for grant distribution and, as this year, authorities spending up will lose grant.

I believe that those proposals provide a fair framework in which authorities can operate next year. It will mean that if they do not spend more than the realistic provision that I have announced that we propose, the average increase in rate bills for non-rate-capped authorities should be around the rate of inflation, though as always there will inevitably be considerable variations around that average. Ratepayers in rate-capped authorities can expect lower increases, or, indeed, reductions. For the position of individual authorities, hon. Members will need to wait until the announcement of my detailed proposals in the autumn. But I emphasise that actual rate bills will depend on the spending decisions of each individual authority.

I am today laying before the House a report setting out how authorities will be selected for rate limitation next year. I am selecting authorities not selected in 1987-88

[Mr. Nicholas Ridley]

whose budgets are at least 12.5 per cent. above GRE and show growth of at least 6 per cent. since 1986-87. I am reselecting those authorities that were selected in the current year whose budgets are at least 12.5 per cent. above GRE. On those criteria, five authorities not selected in 1987-88 — Ealing, Kingston upon Hull, Liverpool, Manchester and Waltham Forest—are selected. Twelve authorities are reselected — Basildon, Camden, Greenwich, Hackney, Haringey, Lambeth, Lewisham, Middlesbrough, Newcastle, Southwark, Thamesdown and Tower Hamlets. Together with the authorities subject to automatic precept control under the Local Government Act 1985, this will mean that, in all, the Government will next year be limiting the rates or precepts of 37 authorities with expenditure totalling over £4 billion.

I am today also setting the expenditure levels for the 17 rate-capped authorities. For reselected authorities, there will be a cash standstill on implied expenditure levels for 1987-88 with an allowance for the full-year costs of the 1987 school teachers pay settlement. All of the five newly selected authorities have budgeted in 1987-88 for a significant increase in spending. Therefore, I am setting their expenditure levels at a 6 per cent. increase over their 1986-87 budget with again an allowance for teachers' pay.

I am, of course, open to representations for redetermination of expenditure levels. Last year, I said that, where an application for redetermination of an expenditure level was made on certain limited grounds, I did not intend to use my powers under the Rates Act either to reduce the expenditure level or to impose conditions following an increase. The Rates Act procedures are now well established, and I should make it clear from the start of this year's round that I will not be giving any such undertaking.

My right hon. Friends the Secretaries of State for the Home Department, for Education and Science, and for Transport will be making separate announcements about expenditure levels for the Inner London education authority and the joint authorities which are subject to precept limitation under the Local Government Act 1985.

Dr. John Cunningham (Copeland): What a contrast this statement is from that of last year, when the Secretary of State said that he wanted to be realistic and even generous with the rate support grant settlement. We are continually told by Ministers that the economy is stronger than ever — indeed, they claim that Britain is booming — but this settlement falls £1.2 billion short of the unanimous view of all local government associations, with support by Tory as well as Labour Members for that figure.

Why is this shortfall necessary? What a contrast it is with last year, before an election. This year, after it, the Government revert to their long-standing policy of increasing the burdens on ratepayers and failing to match the cash needs to maintain essential services, leaving councils with the option of either increasing the rates or cutting the quality, flexibility and sensitivity of the services that so many people desperately need and rely on.

How can the Secretary of State pretend that local authorities can maintain expenditure in real terms when there is a major shortfall in the cash that he is making available in the settlement? Have not, just this week, Her

Majesty's inspectors of education made clear in their report that one in five of all classes in our schools are working in such awful conditions that it is "having an adverse effect on the quality of work" that children and teachers are able to produce.

Does not this settlement imply further cuts in education budgets at a time when most people recognise that we should be increasing expenditure? How does the Secretary of State square that and his penalties on authorities which he claims overspend when the Secretary of State for Education boasts about increased expenditure in education in some authorities? Who has got it right? Whom are we to believe?

Does not the statement also make nonsense of the Government's claim to be making the inner cities a priority for support, when this shortfall and the controls on rates will make it even more difficult for exactly those authorities to make a more effective contribution to solving the problems that millions of their people face? Will not this settlement mean that all authorities, including many Tory-controlled councils, seeking simply to maintain their existing levels of expenditure and services, will be penalised and forfeit grant to the Treasury? What has the Secretary of State to say to those Tory councils, and to his hon. Friends who represent them and those communities?

Have not some police authorities and chief constables, like James Anderton most recently, already made it clear that they cannot meet the requirements of proper policing? How will they be able to do that and find the money for the latest police pay award with this settlement?

Although we do not accept the principle, we recognise the Government's determination to press ahead with rate limitation, but why has the Secretary of State decided this year not to have any discussion on the basis of partial redetermination? He did that last year. He made it clear in his statement that he would do so. Will he reconsider this? We are not aware of any particular problems caused by partial redetermination. On the contrary it seems to have worked reasonably well for both sides. I ask the Secretary of State to reconsider that matter because it would be to his advantage, as well as helpful to some local authorities that are affected.

Does not this inadequate settlement mean that the very poorest people in Britain who, from April next year, for the first time under the new social security regulations will have to pay 20 per cent. of their rates bill, will now face even bigger charges? Is this not typical of the unfairness of the Government's approach to the sharing of burdens in our society? As the Secretary of State in his statement said that this already unfair system will be replaced with a flat-rate poll tax, how does he square his claims of fairness in a poll tax with the Prime Minister's statement some time ago that any system that replaces rates should be based on the ability of people to pay?

Mr. Ridley: I do not know whether the hon. Gentleman understood my statement. I would be happy to repeat it, but I think that that would be tedious for my hon. Friends, who clearly did understand it. This is not a reduction in grant. The hon. Gentleman might be interested to know that the Government have made provision that is 7 per cent. greater than the provision for this year, and grant that is 5.75 per cent. greater than the grant for this year,

when inflation between the two years is expected to be 4 per cent. That is both provision and grant greater than the rate of inflation.

The Association of Metropolitan Authorities went on record last week as saying in a newspaper:

"This year, anything less than £1bn would be quite tough. Anything less than £500m would be very difficult."

We have got it exactly between the two at £750 million, so I imagine that the AMA finds it quite tough but not very difficult. I am grateful for its support, expressed in advance of the Government's settlement.

The hon. Gentleman asked about grant forfeit. I remember well last year how the hon. Gentleman predicted that local authorities would forfeit about £500 million of grant due to the abolition of recycling. He will be interested to know that the figure that I have is about £270 million, which shows the extent to which the abolition of grant recycling has persuaded authorities to moderate their spending.

I repeat to the hon. Gentleman that if local authorities next year hold their spending level in real terms, then they need have on average no greater rate bill increases than the rate of inflation. Surely, it is not too much to ask of the authorities that they should make those economies that are available to them and keep their spending within the rate of inflation, in which case, nobody who pays rates will have to pay more rates, on average, but what they actually pay will depend entirely on how much their local authority spends.

The hon. Gentleman asked about the undertaking in relation to the redetermination of rate limits. Undertakings were given in the past two years that if authorities applied for redetermination on grounds as to how to accommodate mainly their creative accounting, we would not contemplate either conditions or reductions in rate limits as a result of that further negotiation. I merely withdraw that undertaking for the year in advance because it is no longer necessary. We are withdrawing not redetermination but conditions.

Mr. David Howell (Guildford): Does my right hon. Friend accept that much the best thing that he can do with the rate support grant is to do away with it altogether, and that his plans to do just that are therefore welcome? Will my right hon. Friend also undertake, in his future plans for reform, to aim to see that local authority services and functions are tailored and limited as far as possible to what can be raised in local taxation, so that the mechanism and arrangements for subvention from the central taxpayer to the local authorities are limited to what is genuinely needed, and no more.

Mr. Ridley: I could not agree more strongly with my right hon. Friend that the way to deal with the complicated and unfair system of rate support grant, as it has become over the years, is to abolish it and start again. I assure my right hon. Friend that the new system of needs grant, standard grant and the national non-domestic rate will be much easier to understand. Its incidence will be much fairer on authorities. The burden that local authorities should be asked to cover financially can be adjusted up or down by reducing or increasing the amount of Government grant commensurate with the functions that local authorities have to fulfil. It would not be right for me to go into that wider and philosophical question, on a technical statement on the rate support grant.

Mr. Alfred Morris (Manchester, Wythenshawe): What assessment has the right hon. Gentleman made of the job losses that will arise from what will widely be seen as a vindictive decision to rate-cap Manchester? Is he aware that job losses in the public sector, in a city where unemployment is already unacceptably high, will immediately lead to further job losses in the private sector? How can the right hon. Gentleman possibly defend a decision that makes a complete nonsense of all the Government's sloganising about regenerating our inner cities?

Mr. Ridley: In answer to the right hon. Gentleman, I should like to tell him that Manchester city council's spending has increased by 38 per cent. and that the rates have gone up by 26 per cent. since last year. The result of that is to threaten massive job losses. It is the most cruel and cynical way to create unemployment in that city. The right hon. Gentleman should be ashamed to have said what he did this afternoon. The way that we can help him against his own city council, to create more jobs in Manchester, is to limit rates so that businesses can survive and continue to employ his constituents.

Sir George Young (Ealing, Acton): Is my right hon. Friend aware that his decision to rate-cap the London borough of Ealing will be warmly welcomed by domestic and industrial ratepayers in the borough who are appalled at the extravagance and irrelevance of much local government expenditure and made their views known at the general election? Will my right hon. Friend deal robustly with any application for redetermination from Ealing, as all ratepayers know that huge potential savings can be made without any reduction in services? Can my right hon. Friend tell us by how much the rates would go down if he stuck to his announced expenditure target?

Mr. Ridley: The local rate in Ealing this year went up by 72 per cent. I agree with my hon. Friend that there could even be a connection between that and the majorities of my hon. Friends who represent that borough. I do not think that it is a direct ratio, but there might be an even greater relationship between the majorities and the community charge if that were in place. I cannot forecast the rate for Ealing at the moment. The effects of the settlement on individual authorities cannot be predicted until later in the autumn. However, I shall be happy to see any authority that applies for redetermination. Of course, I cannot say in advance what the result might be.

Mr. David Blunkett (Sheffield, Brightside): Will the Secretary of State confirm that every time the local electorate in a borough, city or county votes Labour instead of Conservative, the people may expect the following year to be rate-capped until the Government introduce the poll tax, which will be based purely on the ability to pay and not on citizenship, which has been accepted as democracy over the past 100 years? Does the right hon. Gentleman accept that the system of rate capping authorities, which completely dislocates the financial planning process, is anathema to the financial experts and treasurers in local authorities throughout the country because his decision mean a reduction one year and the lifting of rate capping from some authorities the next, which makes planning almost impossible?

Will the right hon. Gentleman confirm that the ability of local authorities to meet the needs of their areas,

[Mr. David Blunkett]

particularly in inner cities, about which the Prime Minister, he and the Secretary of State for Trade and Industry have pledged their concern, is made impossible by not allowing local authorities to determine for themselves what to do? Finally, will the right hon. Gentleman confirm that the figures that he mentioned in relation to the Association of Metropolitan Authorities anticipated the consolidation of the teachers' pay and the subsequent grant increase, not its withdrawal, so the figures that he suggests will initiate a substantial rate increase in many authorities, which he will then hold up as a reason for introducing the poll tax next spring?

Mr. Ridley: The effect of the teachers' pay settlement restructuring has been included in the figures that I gave, as I imagine, the figures that I quoted from the AMA have been, too. The hon. Gentleman started philosophising at the beginning of his supplementary question about the relationship between rate capping and high spending, and electing various parties, but I should have thought that, from the London experience, he might see it this way. Once a Labour council is elected, the next stage is extremely high rate increases, the next stage is rate capping and the next stage is the election of a Tory Government or of a Tory council in its place.

Sir Anthony Grant (Cambridgeshire, South-West): Is my right hon. Friend aware that the best part of his statement was the information that all the nonsense of the rate support grant and the absurd rating system has only two more wretched years to go? I appreciate that this is a local statement, but does my right hon. Friend recall that a promise was made some years ago that in the rate support grant there would be much greater fairness to the shire counties? Can he therefore give an assurance that when the details are worked out, they will not be expected to subsidise incompetent local authorities? In particular, can my right hon. Friend assure me that no excuse will be provided for incompetent and inefficient county councils, such as the Lib-Lab Cambridgeshire county council, to use the settlement as an excuse for further inefficiency?

Mr. Ridley: I can only share with my hon. Friend the joy at the thought that this is the penultimate rate support grant settlement. I might be even more enthusiastic about that prospect than him and my other hon. Friends because I have to do it. I cannot predict the effects of the Local Government, Planning and Land Act 1980 working through as a result of the general statement that I have made. A formula in that Act operates on the needs formula as well as on the rateable value of each authority. That combination has taken grant from the shire counties on the whole and moved it to other authorities. That cannot be arrested until our mutual dream of the abolition of the system is achieved.

Mr. Simon Hughes (Southwark and Bermondsey): Will the Secretary of State correct one misapprehension, that when and if the community charge is introduced, there will still be Government support for local government? The right hon. Gentleman is not saying, is he, that in two years' time all taxpayers' contributions to any local government services will end under the community charge, because that is far worse than anybody anticipated. Will the right hon. Gentleman confirm what the hon. Member for

Copeland (Dr. Cunningham) said, that his officials and local authority officers agreed that the amount needed for services to be sustained at their present level was £29 billion, £1.5 billion more than the right hon. Gentleman has accepted, so there is a necessary underfunding?

Lastly, if the Government are committed to the inner city, why have eight inner London boroughs been rate capped, along with Liverpool, Manchester and Newcastle, reducing their funds in coming years, when they are just the places where homelessness and unemployment are greatest and where regeneration depends on money coming from the Government and those who can afford to pay?

Mr. Ridley: The hon. Gentleman kindly asked me to remove his misapprehensions, and I am happy to remove all three of them. First, if he had read the Green Paper, the Conservative party's manifesto and other documents, he would have known that Government support will continue, but instead of being in the form of a rate support grant it will be in the form of a needs grant together with a standard grant, not the same thing and based on a different principle.

Secondly, if the hon. Gentleman has any misapprehensions about the expenditure groups to which he referred, I can tell him that those are merely the bids of local authorities for extra spending and are in no sense agreed by Government.

Thirdly, I invite the hon. Gentleman to consider whether the rates in his and similar boroughs are inimical to the regeneration of the inner city rather than a help, in the sense that they drive away employers and businesses, causing the loss of jobs and income, and the very problems for which we are trying to find solutions.

Several Hon. Members rose—

Mr. Speaker: Order. I remind the House that we have two further statements before an important series of Northern Ireland debates. I shall endeavour to call every hon. Member if questions are brief, but it may be difficult.

Mr. Charles Morrison (Devizes): Can my right hon. Friend give me an assurance that within the allocation of the rate support grant there will not be a switch to metropolitan districts at the expense of shire counties, who, traditionally, have run much better-managed budgets?

Mr. Ridley: I cannot give my hon. Friend that assurance because the rate support grant formula is enshrined in statute and works according to the rateable values and needs figures for each authority. He will have to await the results in the autumn to see such effects.

Mr. Robert Parry (Liverpool, Riverside): How will Liverpool city council be affected? Are the Government seeking confrontation with the newly-elected Labour council? Is that why the Prime Minister has changed her mind about visiting Liverpool during the summer recess? Does she not have the guts to meet the people of Liverpool? If the Prime Minister will not visit Liverpool, will the right hon. Gentleman at least pay a visit to see things at first hand?

Mr. Ridley: The hon. Gentleman has his answer in the fact that Liverpool has the third highest domestic rate in the United Kingdom at 304p. That is damaging to those who would set up in business there and provide jobs. I know that the hon. Gentleman does not care, but we do,

and that is why it is convenient and helpful that Liverpool falls within the criteria. I hope that that will encourage businesses to return to that city.

Mr. John Heddle (Mid-Staffordshire): Does my right hon. Friend accept that the majority of ratepayers in local authorities which play the game will see today's announcement as a sensible settlement? Does he agree that it is the duty of local councils to manage their affairs as efficiently as possible? If so, what does he propose to do to bring to their senses those local authorities that are allowing rent arrears to rip to over £200 million in the past 12 months. Furthermore, will he ensure that local authorities such as Manchester city council and others do not revert to bogus leaseback schemes and other forms of deferred purchase to get round his guidelines?

Mr. Ridley: I thank my hon. Friend. The settlement is fair, but it is fairly tough in the sense that it does not simply acknowledge local authority spending sprees. Only prudent authorities which contain their spending will find it easy to live with. However, as my hon. Friend says, help is at hand through the Local Government Bill and the many possible savings of up to £2 billion which the Audit Commission's report has identified. I cannot say anything at this stage about creative accounting, but I have noticed some signs that the lenders are finding lending less attractive than they used to, and they are wise to do so.

Mr. William O'Brien (Normanton): Does the Secretary of State accept that his statement today will be seen as real poppycock by those who serve in and work for local government? Is he aware that when he talks about holding expenditure in real terms, he must realise that he is starting from a low base? Is he also aware of the damage to roads and so on, and of the problem of community care? Will he have a word with the Secretary of State for Social Services, who is sending people, such as the disabled, the mentally ill and the elderly, from hospital into the community? Will he ensure that there is no shortfall in the provision for community care which is being taken over by local government?

Mr. Ridley: I have no idea what the hon. Gentleman is talking about when he speaks of a low base. This year, as far as we know, local authorities are spending 3 per cent. more than the rate of inflation compared with last year. If one goes back further, since 1981-82 real local authority spending has increased by 14 per cent. whereas in the same period real Government spending has increased by only 6 per cent. We are not seeing a settlement from a low base. The Government are waiting to see whether local authorities can take the necessary measures to cut out waste and extravagance and bring their budgets under control. If they can, they can easily live with the settlement.

Mr. Jerry Hayes (Harlow): I give my right hon. Friend's statement a guarded welcome, but when he abolishes this travesty of a system which is unfair to counties such as Essex, will he reward those counties which are prudent and efficient and penalise those which are not?

Mr. Ridley: Did my hon. Friend give a *Guardian* welcome, or did I mishear him? [HON. MEMBERS: "Guarded."] My hon. Friend is right about the unfairness of the system on counties such as Essex, but Essex could do more to contain its spending. It will be able to keep a low rate increase if it can keep a low spending increase.

Mr. Jeremy Corbyn (Islington, North): Will the Minister take his nose out of the works of Adam Smith for a moment and look a little wider? Let me put to him an argument that he might understand—

Mr. Speaker: Order. Will the hon. Gentleman ask his question, please?

Mr. Corbyn: Will the Minister consider that the laws of supply and demand—which he may well understand because he knows a lot about that—cannot be met under his proposals because the necessary social services for elderly people cannot be met by rate-capped local authorities any more than the housing needs of the homeless can be met without a massive increase in capital building? Instead of trying to control local government expenditure by Government diktat, will the right hon. Gentleman examine the needs of inner-city areas and be prepared to pay the money necessary to take out of the lives of millions of people the misery caused by the Government.

Mr. Ridley: The hon. Gentleman would be welcome at a teach-in on the laws of supply and demand. He will know that supply and demand are equal when the price is such that the market clears. In the case of local authority spending, there is no such price and many of the services about which he is talking are not paid for, so there is no conceivable possibility of the market clearing. Therefore, there must be a limitation on the total expenditure. On this occasion I have produced a limitation that is well in excess of inflation. I should have thought that the hon. Gentleman would welcome that rather than make such grudging comments.

Mr. Irvine Patnick (Sheffield, Hallam): Will my right hon. Friend explain the total amount of overspend for local authorities and the effect that that is having on other authorities? What news can he give me for the residents of Sheffield, Hallam, because although I realise that the city is not rate-capped, the last time that rate capping occurred the hike in rates was penal and extra rates were levied by my hon. Friend the Member for Sheffield, Brightside (Mr. Blunkett) who, I believe resigns his leadership of Sheffield city council at midnight tonight?

Mr. Ridley: I am sorry to hear that the hon. Member for Sheffield, Brightside (Mr. Blunkett) has become my hon. Friend's hon. Friend. The hon. Member for Brightside should remain as an hon. Member because of the different views that he and my hon. Friend hold about what is good for business in that city. I hope that the possibility of rate limitation might have a slight deterrent effect, and that those who cannot be limited might fear such limitation and have in mind the possibility that keeping their rates low may help business and jobs in the city.

Mr. James Lamond (Oldham, Central and Royton): Is the Secretary of State aware that in a constituency such as mine, which is an older metropolitan borough, surgeries are crowded, not by irate ratepayers telling me that they pay too much in rates, but by people who demand improved services, more home-helps, better roads and pavements, and more nursery school places? Why does the right hon. Gentleman see his duties as Secretary of State for local government in such a one-sided fashion that he is concerned only about trying to keep down, as far as he can, the expenditure of councils such as Oldham, which

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has never overspent? Why does he not concern himself instead with the real duty of local government, which is to meet the demands of the people who have elected the council, and who are prepared to pay the rates to sustain those services?

Mr. Ridley: I quite accept from the hon. Gentleman that his surgeries are not crowded with irate ratepayers. However, I advise him that mine are, because about £1 billion of rate support grant has been taken from the south of England and given to the north. The people who must pay that £1 billion are represented by many of my hon. Friends, and they go to their surgeries asking whether it is fair. The least that the hon. Gentleman can do as a result of that massive switch of resources from south to north is to not make supplementary questions as griping and ungrateful as the one that he has just put.

Mr. Patrick McLoughlin (West Derbyshire): Does my right hon. Friend realise that the biggest set of complaints that I receive in my surgery is high rates? What satisfaction have my constituents in Derbyshire received when our county has not been rate capped? Does my right hon. Friend accept that we are the highest-rated county in the country and that my constituents will be extremely disappointed by his statement today that we have not been rate capped?

Mr. Ridley: The only consolation to the citizens of Derbyshire is that my hon. Friend was elected, and that the chairman of the county council was not. I congratulate my hon. Friend, but advise him that authorities can be rate capped only if they fall within the criteria that I have set forth. It is not selection. Rate capping applies only to those authorities that fall within the criteria, and Derbyshire does not.

Mr. Max Madden (Bradford, West): What help will the statement bring to the city of Bradford, which has had its rate support grant cut by the Government by more than £70 million since 1979? If the Prime Minister has chickened out of a visit to Liverpool, will the Secretary of State suggest that he and she visit the city of Bradford, and when they arrive, will they announce a substantial increase in rate support grant for the city so that more of my constituents can live in decent homes, have their children attend schools that are not falling down, and live in an environment that is not decaying before their eyes?

Mr. Ridley: The hon. Gentleman cited three examples: schools, the environment and housing which, of course, are not covered by the rate support grant. They are capital items in the local authority's budget and in no sense does the statement that I have made today refer to them. However, I have some good news for the hon. Gentleman. On average, rate support grant has increased by 5 $\frac{3}{4}$ per cent., which will benefit his constituents and those of all other hon. Members.

Mr. Harry Greenway (Ealing, North): Will my right hon. Friend accept the thanks of the people of Ealing for his decision to rate cap them? I advise him briefly that pensioners are going without food to find the 65 per cent. rates increase. Many jobs are being lost in industry and the purchasing power which is taken out of the economy means that there is less money available for shopkeepers to sell their goods, and that they themselves have higher

rates to pay. Haircuts to pensioners are up by 60p. Will my right hon. Friend tell the House what the rate in Ealing would be if the formula that he has mentioned were applied?

Mr. Ridley: I have received congratulations about this from practically every resident in Ealing, with the exception of the Leader of the Opposition. Perhaps that has been delayed in the post and will be with me soon. I cannot give my hon. Friend the figure for which he asked without some notice, but I shall give him as much information as I can immediately. I agree that high rates cause poverty and deprivation among the poor and drive away jobs. The loss of jobs drives away income, and that limits the ability of an area to generate wealth for itself.

Several Hon. Members *rose*—

Mr. Speaker: I repeat that I am anxious to call all hon. Members, but I must ask for brief questions otherwise that will not happen.

Mr. David Clelland (Tyne Bridge): Is the Secretary of State aware that although the decision to release the metropolitan borough of Gateshead from rate capping will be welcomed, given the financial regime that the Government have imposed on local government, that council can protect its services and jobs only at a cost to the ratepayer? Is he also aware that the continued rate capping of Newcastle, which shares inner area partnership status with the metropolitan borough of Gateshead, gives the lie to the Government's crocodile tears for inner-city problems?

Mr. Ridley: The hon. Gentleman must understand the point. He seemed to miss it again. He said that Gateshead could protect jobs and services only at the expense of the ratepayers. That is to put jobs at a low priority because jobs are provided by people who pay rates. Until he and his hon. Friends understand that high rates cause unemployment — [Interruption.] When the hon. Gentleman has taken that point on board we shall be making a little progress.

Mr. David Madel (Bedfordshire, South-West): Does my right hon. Friend recall that, as a result of representations that some of us made to his ministerial colleagues last autumn, he changed the way in which the safety nets operate and that that was of some help to counties such as Bedfordshire? Is similar help over safety nets built into the proposals that he announced this afternoon?

Mr. Ridley: We have not yet done further detailed work on the unallocated margin, the safety net, the cap on gains, or on the service distributions. Until that further work is done, it is impossible to analyse the possible results on each authority. That announcement is usually made in the early autumn.

Mr. Robin Corbett (Birmingham, Erdington): So that I may, with greater accuracy, take this so-called good news immediately to the city of Birmingham, will the Secretary of State say exactly how much new and extra money the city will receive from this settlement to maintain and develop needed services and to give greater attention to the increasing demands of inner-city decay?

Mr. Ridley: I cannot predict the result for individual authorities. However, the total extra Government grant is £750 million gross to the whole country.

Mr. Phillip Oppenheim (Amber Valley): Is my right hon. Friend aware that Derbyshire used to be one of the lowest-rated counties in England and Wales, but is now one of the highest-rated counties? Is he further aware that that is solely due to the profligacy of Derbyshire county council? Is it not time to put an end to the long suffering of the ratepayers in Derbyshire, to draw the teeth of the little Lenins at Matlock, and to rate cap Derbyshire immediately?

Mr. Ridley: I would not like to interfere in the adjectives that my hon. Friend uses. I can only say that this year Derbyshire does not fall within the criteria of rate-capping. Equally, it would be helpful if at the next elections the county council was called to account for the rates that it has imposed.

Mr. Tony Lloyd (Stretford): If the Government have any conception of the problems of the inner cities and genuinely intend to resolve them, which jobs and services does he want Manchester council to cut?

Mr. Ridley: Obviously, I shall not discuss the detailed possibilities of any given authority. I can only tell the hon. Gentleman that authorities which keep a low rate and run efficient services are doing very much better at attracting jobs and solving problems than those which believe that the future lies only in taking on surplus council staff as a sort of bogus way of creating jobs in the inner city.

Mr. Graham Riddick (Colne Valley): Can my right hon. Friend give the House any indication about the effects of his announcement today on northern metropolitan district councils? Can he confirm that if councils, such as my local one of Kirklees, were quickly to contract out local services and to improve efficiency, they could probably reduce the rates?

Mr. Ridley: My hon. Friend is entirely right. The opportunities for savings exist through providing council services more cheaply after putting them out to competitive tender—whether contracted out or not, that is not the point—even in advance of the Local Government Bill. Once it is on the statute book, they will have to do that. It is intolerable for councils to complain that they have insufficient money when it is well known that more than £2,000 million could be saved by councils increasing their efficiency. They must attend to that first.

Mr. Keith Bradley (Manchester, Withington): Does the Secretary of State realise that the people of Manchester have completely rejected the Government's policies on rate support grant by kicking out the last Tory from Manchester council? Does he realise that our spending is based on the needs of the people, of whom over 50 per cent. live in poverty? Will he explain why he will attend the Cabinet committee meetings on inner cities although he does not understand the link between local government finance and the need to regenerate inner cities? Finally, will he withdraw the despicable answer that he gave to my right hon. Friend the Member for Manchester, Wythenshawe (Mr. Morris)? Does he not understand that thousands of jobs have been lost in the public and private sectors because of rate capping Manchester?

Mr. Ridley: I hope that the hon. Gentleman, together with some of his hon. Friends, will get the point that Manchester, with a rate of 336p in the pound, has the highest rate in the country. Any business which is thinking of choosing a location and providing jobs is unlikely to

pick the council with the highest rate in the land; it is the last place where they will go. The difficulties created by the hon. Gentleman and the city council are among the main causes of inner-city problems.

Mr. Robert Key (Salisbury): I know that my right hon. Friend is sensitive to the fact that in areas where the economy is expanding, such as in Wiltshire, a great deal of development, much of which is opposed by the local authority, leads to compulsory infrastructure expenditure. Does he agree that the time has come for the developer to pay for that infrastructure, thereby releasing the burden of expenditure from the local authority?

Mr. Ridley: I have heard of arrangements between developers and local authorities where something of that sort takes place, but I do not think that we should get into the position where there seems to be a payment for planning permission of that sort. Local authorities receive grants and capital allocations tailored to their needs to provide for the infrastructure. The trouble is that the total of those needs throughout the whole country is inevitably greater than the money that can be afforded.

Mr. Tony Banks (Newham, North-West): When will the Secretary of State get it into his head that it is not high rates that cause unemployment, but it is high interest rates, low investment and overvaluation of the pound? Those are the major causes of unemployment in the inner cities and elsewhere. Will he begin to understand that no local authority likes to increase the rates? Local authorities increase rates to meet the needs of the community—needs which have been exacerbated by the Government's policy. Before the right hon. Gentleman, with his hon. Friend the Member for Ealing, North (Mr. Greenway) and others starts criticising, will he realise that the substantial rate increases in those boroughs were caused by years of dereliction when the Conservatives controlled those councils? When will he start defending the system of local democracy and local government accountability instead of coming here and acting like some Stalinist boot boy on the orders of—[*Interruption.*—No. 10?

Mr. Ridley: I understand that I have to congratulate the hon. Gentleman on being made a Whip. Having listened to him on many occasions I hope that Opposition Whips are not like Government Whips in the sense that they cannot talk because every time he opens his mouth he helps us greatly. Naturally, interest rates are extremely important. If the Government were to increase the grant, as the Opposition seem to want, or local authorities were to increase spending, as they are talking of, there would be massive increases in interest rates which would indeed be damaging to jobs in all hon. Members' constituencies, not just the hon. Gentleman's.

Mr. Kenneth Hind (Lancashire, West): I represent a constituency on the edge of Liverpool and I am a Mancunian born and bred. Does my right hon. Friend recognise that the one thing both those communities need is jobs and that the one thing likely to create them is the rate capping of those two profligate authorities, which he has just done? In the light of the Audit Commission's recommendations that £1.5 billion worth of savings can be made by local authorities, what action will he take to encourage them to make those savings?

Mr. Ridley: During my hon. Friend's question I thought that I almost heard the ghost of Mr. Robert Kilroy-Silk, but my hon. Friend is much more eloquent. His figure of £1.5 billion of savings being possible for local authorities is an underestimate. The Audit Commission has estimated that perhaps £2 billion could be saved. Certainly, there is considerable confidence that the Local Government Bill alone could result in savings of up to £500 million.

Mr. Dennis Skinner (Bolsover): Why do the Government not treat other public institutions in the same way as they treat local authorities which are rate-capped, such as Manchester and Liverpool? Why, for example, should the Prime Minister's costs at No. 10 Downing street have increased 100 per cent. beyond the rate of inflation since Jim Callaghan left, as we have been informed in answers this week? Why has she not been rate-capped? May we have a guarantee that the right hon. Gentleman's statement today will stand up in a court of law? [HON. MEMBERS: "Come on."]

Mr. Alistair Burt (Bury, North): Is my right hon. Friend aware of the considerable damage done to the reputation of the north-west and its vital capacity to attract outside investment by the activities of such councils — once great city councils — as Liverpool and Manchester? Is he aware that his decision today to rate cap Manchester will be seen as a welcome warning of good sense and will be welcomed by many outside the city who love it and have mourned its decline in recent years?

Mr. Ridley: I agree with my hon. Friend. The more I hear from Opposition Members about the problems of Manchester and Liverpool, the more I am beginning to think that they are the problem.

Mr. D. N. Campbell-Savours (Workington): In the light of the calls he made in his statement for local authorities to address the 0.75 per cent. drift in manpower which he identified last year, is the Secretary of State saying that local authorities, such as Cumbria, should not appoint social workers to pursue people who abuse children, should not appoint lollypop-ladies, teachers for nursery schools, and the people who play a vital part in underpinning every community? Why should they not have the right to appoint those people when they know that the general public want those appointments made?

Mr. Ridley: The hon. Gentleman will agree that there is a distinction between the needs of people to be in grace and to perform desirable functions and the need to have the right number of those people and not an excessive number. During the past eight years the Government have reduced the Civil Service by about 135,000 people, while at the same time they have provided much better quality government. That is an example which local authorities should follow.

Mr. James Couchman (Gillingham): Is my right hon. Friend aware that his answers to my hon. Friends the Members for Devizes (Mr. Morrison), for Bedfordshire, South-West (Mr. Madel) and for Cambridgeshire, South-West (Sir A. Grant) will not reassure either the leaders or residents of careful counties such as Kent, and the residents in my district authority, which is the most careful district authority in the country, that there will be no artificial shift of money from the shire counties to the cities. Will he reassure them that when he says there will

be no major changes in the mechanism for distribution, that there will be no artificial shift of resources from the shires to the cities?

Mr. Ridley: When I was talking about there being no major changes in the mechanisms, I was referring to the slopes, the forfeit of the grant and matters of that sort. A further set of mechanisms are the unallocated margin, the service distribution and the multipliers. When they are determined, we will be able to give hon. Members a more accurate forecast of the grant entitlement of each authority. I cannot do that now. I have to be frank with the House and say that, as in all previous years under this system, the increase in rateable value in certain areas results in the loss of grant to areas with high need, and there is nothing that the mechanism can do to arrest that. That is a problem with the system, and it is why the system has to be scrapped. We must wait to see the exemplifications before giving my hon. Friend a better answer.

Mr. Bob Cryer (Bradford, South): That sneering and cynical statement will be met with apprehension in cities such as Bradford which are struggling to maintain services and to repair schools, many of which were built in Victorian times. The Tory Government are fond of Victorian values. Does the Secretary of State not understand that councils are trying to maintain services against a background of massive rate support grant cuts? He could do the nation a service by restoring some of those cuts and ensuring that councils can maintain the services which, by and large, help the poorest people in our community. If he wants the money, he can persuade the Cabinet to cancel the £10 million Trident programme.

Mr. Ridley: The return of the hon. Gentleman to this House was the true cause of apprehension in Bradford.

Mr. Tony Baldry (Banbury): Will my right hon. Friend confirm that while we have the present formula for allocating grant, it is inevitable that high rateable value councils such as Oxfordshire will have grant taken away, which is why such counties will warmly welcome our proposals for reforming the rating system? Until that happy day, if counties such as Oxfordshire spend disproportionately above GRE they will inevitably see rates go through the roof to the detriment of pensioners, jobs and others in the county.

Mr. Ridley: My hon. Friend assessed the situation entirely correctly. There is no way that the switch of grant from high rateable value areas to high need areas can be arrested by any of the mechanisms, although it can be moderated. We will have to see what we can do about that later. Such situations are grossly exacerbated by high spending.

Mr. Jeff Rooker (Birmingham, Perry Barr): At some time, probably during the recess, will the Secretary of State place in the Library his analysis of the connection between jobs and rates so that we can have this debate on the basis of common knowledge? Contrary to the very first question he was asked by the right hon. Member for Guildford (Mr. Howell), the penny-pinching that has taken place in towns such as Guildford has led to the town being strewn with litter all weekend. People wonder why, get annoyed and complain. There is a connection between false penny-pinching by local authorities and services.

Given that the word people does not appear in the Secretary of State's statement, I wish to ask him a question about the rising elderly population in the country. Are the local authorities that he claims are spending too much the same local authorities that are not training care assistants for old people's homes, or that are not able to inspect private sector old people's homes, with the tragic consequences that have ensued recently? Whatever the jargon involved in this kind of statement, it is about people. I ask the Secretary of State to address himself to these points, which have been raised by some of his hon. Friends and all of mine.

Mr. Ridley: Starting with Guildford—I notice that my hon. Friend the Member for Guildford (Mr. Howell) is no longer with us—one of the difficulties for councils in areas such as Guildford is that such a tremendous cut is made in the grant that they have very high rates for a very low spending performance, because so much money is transferring to constituencies in the Manchester and north-west area. So, for the hon. Member for Birmingham, Perry Barr (Mr. Rooker) to come and criticise what is happening in Guildford on top of that is a little disparaging, when he remembers the subsidy that is going to areas further north. Of course, that is the point: rates and jobs are intimately connected. That is why areas such as Guildford have tried so hard to keep their rates as low as they can, because they fully understand the relation between high rates and jobs—even if the hon. Gentleman does not.

Yes, the statement is about people, but the people are separated from the statement by their local authorities. I hope that the local authorities will remember that this statement is about people, and the people who pay the rates as well.

Rate Support Grant (Wales)

5.7 pm

The Secretary of State for Wales (Mr. Peter Walker): With permission, Mr. Speaker, I wish to make a statement about my proposals for the 1988-89 rate support grant settlement for Wales.

Local authorities in Wales are beginning to plan their budgets for next year. In order to assist that process I am today announcing the key elements of my proposals for the RSG settlement. I shall shortly be circulating, as is customary, more detailed information to Welsh councils, and I shall place copies of that material in the Library and in the Vote Office.

In framing my proposals for 1988-89 I have taken account of the demands on Welsh local authorities. Again, this year, Welsh councils have a settlement which provides a realistic base, enabling them to maintain and develop services while keeping spending within the Government's plans. While there is competition between services for resources, there is also tremendous scope for maximising the effective delivery of those services, through improved efficiency and greater awareness of the potential to achieve cost savings by adopting the best practices currently developed. Not enough is done to ensure the rapid and effective dissemination of improvements in efficiency, and I want to work in close co-operation with local government to increase the pace of progress in that area and to realise the savings that are waiting to be made.

I turn now to my proposals for the 1988-89 settlement. Provision for local authorities' relevant current expenditure in 1988-89 in the public expenditure White Paper published in January 1987 was £1,589 million. I now propose to set current expenditure provision at £1,640 million—£51 million, or 3.2 per cent., more than the White Paper figure, £82 million, or 5.3 per cent., more than authorities have budgeted to spend this year, and £113 million, or 7.4 per cent., more than provision in the 1987-88 settlement. This allows all authorities to hold their spending broadly level in real terms, and in addition provides an allowance for key county services. In the autumn I shall give details of the distribution of this sum between services.

Total relevant expenditure for RSG purposes is estimated to be £1,886 million, which is £105 million, or 5.9 per cent., more than authorities have budgeted to spend this year, and £122 million, or 6.9 per cent., above the assumption for total relevant expenditure in the 1987-88 settlement.

As for aggregate Exchequer grant in support of relevant expenditure, I propose that it should be £1,256 million, an increase of £82 million, or 7 per cent., on the level in the main report for 1987-88. The grant percentage will be maintained at 66.6 per cent., the same level as in the main report last year after allowing for grant provision for the teachers' pay increase. This generous increase in grant should lead to very low average rate rises next year.

The local authority associations have made it clear to me that they favour stability and certainty in grant entitlements. I therefore propose to leave the basic grant distribution mechanisms unaltered, though I shall review this proposal during the course of further consultations with them in the autumn. The slope of the grant-related poundage schedule and the 10 per cent. threshold will remain unchanged, and I propose to leave in place the

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mechanisms used in the current year to limit grant gains and losses. This will enhance stability while exerting the necessary downward pressure on spending. For most councils, increases in spending will result in a loss of grant and this will not be recycled. Equally, reductions in expenditure will attract extra grant. Councils thus have an opportunity to plan ahead with certainty in the knowledge that their grant entitlement will be a direct result of their own spending decisions. I remind councils that there is also extra grant available in 1987-88 if they bring their spending closer to plans.

I have no doubt that my proposals for 1988-89 offer local authorities in the Principality a realistic base. They will be able to develop services whilst improving the efficiency and effectiveness of the services under their control. They know that if they work within the Government's expenditure plans their taxpayers will benefit from the extra resources that I have provided. I look forward to further discussions with the Welsh Consultative Council for Local Government Finance, not only about my proposals for the 1988-89 settlement, but about how best to further our joint objective of achieving the best possible services for Wales.

Mr. Alan Williams (Swansea, West): Stripped of its verbiage, we have just heard from the Secretary of State an admission of his failure. The only welcome we can give is for the fact that there has been no change in the mechanisms and for the fact that he has dropped the detailed schedule that caused so much confusion last year. Behind the symbols and the hieroglyphics of the rate support grant lie for Wales the sad realities of crucial, but crumbling, services, and essential, but inadequate, resources. The statement is really about houses and house repairs, or the need for them; about social services, home helps and services for the elderly, or the lack of them; and about books for schoolchildren and repairs for schools, or the absence of them. Does the right hon. Gentleman realise that, in the past eight years, in all those aspects Wales has fallen behind social need at a time when that need has been increasing, because of the extra 75,000 unemployed and the aging population?

The cost increase assumption in the statement is critical because, self-evidently, if the costs are not covered by the increases, cuts must be made or rates must be increased. Will the right hon. Gentleman confirm, therefore, that in his statement he assumes cost increases and a GDP deflator of 4 per cent.? Does he recognise that this is not only completely inadequate but completely unrealistic? Surely he is not unaware that costs for councils, because they are labour-intensive, rise far more rapidly than the cost of living index? They are essentially geared to the changes in salaries and wages.

The police have just had a 7.75 increase—an increase awarded by the Government—which councils will have to pay. Teachers have just had an increase—again an increase awarded by the Government—which councils will have to pay. The firemen have just had an increase. Those increases alone will need an extra £86 million of expenditure, and there are still the manual, administrative and clerical workers to come. None of those is likely to settle at the 4 per cent. implicit in the right hon. Gentleman's assumptions.

Is the Secretary of State aware that the district councils estimate that they need to increase expenditure by 7 per cent. just to stand still, just to maintain the existing levels of provision and commitment? The county councils estimate that they need 10 per cent. just to stand still. Is the Secretary of State the only one in Wales who does not know what all Welsh people know, which is that merely sustaining the existing levels of service in Wales is not enough? In fact, this statement leaves a gap of 3 to 4 per cent., a £16 million under-provision of the levels needed just to sustain inadequate services at their present level.

Does the right hon. Gentleman agree that, although at first sight this settlement appears to be better than the English settlement—5.3 per cent. compared with 4 per cent.—that comparison is deceptive, because 37 of the English authorities, which account for about one third of the total spend in England, are rate capped or otherwise subject to spending limitations? If we take the English shires, such as the area represented by the Secretary of State, we find that the settlements are virtually the same in England and in Wales.

Has the Secretary of State looked at what has happened to local government finance in Wales since the Conservative party came to office? Is he aware that this Government have robbed Wales of £672 million of rate support grant—the extra amount that would have been received over the life of this Government if only the rate support grant had been kept at the 1979 level? Does the right hon. Gentleman realise that that represents a loss of £650 for every Welsh household, or a loss of £268 for every Welsh man, woman and child? A figure of £672 million is difficult to visualise, but, put in capital terms, it would provide 20,000 houses or 280 new schools.

Does the Secretary of State accept that, because rate support grant has fallen since 1979 under this Government from 75 to 67 per cent. of total spending, the Welsh councils have had to find from rates 33 per cent., instead of 25 per cent., of expenditure? Is it not hypocritical of the Government to throw up their hands in false surprise when councils inevitably have been forced to increase their rates? Does the right hon. Gentleman realise and accept that this poor settlement means more rate increases for Wales in the coming year, or is that perhaps what the Government want? Is this to soften up the public in preparation for the introduction of the poll tax?

The Secretary of State says that he has maintained the percentage of grant. [Interruption.] His statement leaves more questions to be answered than it answered. Does the right hon. Gentleman not understand that to say that he has maintained the percentage of grant is meaningless, because the percentage on its own is meaningless? What really matters is what it is a percentage of. The same per cent. of too little still remains too little, and this grant is £60 million below what is needed just to stand still.

The Secretary of State talks of greater efficiency. Is he aware that the chairman of the Audit Commission cut by 75 per cent. his predecessor's estimate of the scope for efficiency savings in local government? Is he aware that Wales has suffered eight years of neglect and disinterest and that this statement does nothing to reverse that deprivation and nothing to restore the £672 million stolen from the people of Wales? It will be a cause of alarm and despondency in Wales. It will mean rate increases far beyond anything that the Secretary of State is projecting. This is the right hon. Gentleman's first real decision for Wales. What Wales needed was a champion, a fighter, in

the Cabinet. Instead, we have a Secretary of State who is strong on charm but utterly, disastrously and pathetically weak on performance. Today he has failed the people of Wales, but it is the people of Wales who will pay for that failure.

Mr. Walker: That was a third-rate statement by the third choice shadow Secretary of State. No wonder it was greeted throughout in such dismal silence by the Opposition. To string along previous cuts in local government expenditure is wrong. Perhaps the right hon. Gentleman would like me to go over the period when the Labour party was in power and to refer to his total silence as the Labour Government slashed education and health services and plunged into debt to the International Monetary Fund. Perhaps the Labour party recognises that the shadow spokesman was a silent spokesman on these topics when the Labour Government were cutting services such as those that he now mentions as being so passionately dear to his heart.

The statement says that next year the Government grant will increase ahead of the estimated rate of inflation. The expenditure accepted for grant is equal to £1,800 per household in Wales, of which £1,200 will come from Government grant—an increase of 5.3 per cent. on the amount that local authorities have budgeted for this year. I should have thought that most people taking a sensible and objective approach would recognise that this is a sound and sensible settlement. The Opposition are not interested in improved efficiency in local government.

As for the suggestion that the Audit Commission considered that only a proportion of my predecessor's forecast savings could be achieved, the fact is that the Audit Commission and LAMSAC, the local authorities' own management advisory service, have come forward with dozens of proposals to improve efficiency in local government in Wales and, indeed, throughout the United Kingdom. Some local authorities in Wales have done some of these things—some have done much more than others—but the potential for improvement in efficiency is very considerable.

It would be irresponsible to say that one will increase grants without expecting improved efficiency. Therefore, I strongly defend a settlement in which we get a 66 per cent. grant compared with 46 per cent. in England, and a 5.3 per cent. increase on this year's budget, which is 1.5 per cent. more than has been obtained for England. It is a just, sensible and good settlement.

Several Hon. Members *rose*—

Mr. Speaker: Order. I again appeal for brief questions.

Sir Anthony Meyer (Clwyd, North-West): Is my right hon. Friend aware that he has secured an excellent settlement, which will be warmly welcomed by local authorities of all political colours, in contrast to the prolonged and unworthy whingeing that we have heard from the right hon. Member for Swansea, West (Mr. Williams)? Is he further aware that local authorities in Wales are keenly looking forward to working closely with him on the basis of the approach that he has demonstrated in this statement and previously?

Mr. Walker: It is a sensible settlement, and I am grateful for my hon. Friend's remarks about it. The settlement will be welcomed in the Principality. I very much look forward to working closely with local authorities throughout the Principality.

Mr. Richard Livsey (Brecon and Radnor): What allowance is made in the rate support grant for inflation? There seems to be some controversy about this. The right hon. Member for Swansea, West (Mr. Williams) said that there was a GDP deflator of 4 per cent. If that is accurate, the rate support grant for Wales is underfunded. Indeed, Powys county council estimates that a 6 per cent. increase is required simply to stand still. Will the right hon. Gentleman put us right on that? Does he believe that the rate support grant settlement is adequate for education, social services and housing, all of which are in a state of crisis in Wales?

Mr. Walker: There will always be scope for increased expenditure in all those spheres, but in Wales we must also consider the importance of attracting jobs and businesses, and the level of rates. If they soar, as they have in parts of England, they will have a detrimental effect on the expansion of the economy.

When the Liberals were in partnership with the Labour Government, they, too, found that there were practical problems associated with enormous increases in expenditure, for which they usually ask. When they supported the Labour Government, they had to support cuts in most of these sectors. The hon. Gentleman said that local authorities calculate that it will cost an extra 6 per cent. to stand still, but they have agreed wage increases substantially above the rate of inflation. Whether that is done in the private or the public sector, one has to improve productivity and efficiency to help meet part of the extra wage cost. That applies as much to local government as to anyone else.

Mr. Keith Raffan (Delyn): I congratulate my right hon. Friend on his statement. I am sure that the people of Wales will attach far greater credibility to the statement of a Secretary of State within the Cabinet than to a third choice outside the shadow Cabinet. At least we, unlike the Labour party, have a fighter where the power lies.

Does my right hon. Friend agree that the result of this generous settlement and the drive for efficiency that he has called for will be not only low rate increases but a real improvement in local services, provided that local authorities concentrate on their statutory obligations? Will my right hon. Friend exert his influence on Clwyd county council to get it to divert resources from non-statutory spending to skill building and the maintenance of the school libraries' stock, in view of growing concern over the scandalous neglect of both?

Mr. Walker: I note what my hon. Friend said about his county council. He is right in saying that improving efficiency is an important factor. It is of benefit because it means that the amount of money available is used more sensibly and to greater purpose, and it stops unnecessary increases in the rates. I wish to discuss with the local authorities in Wales how we can introduce machinery whereby if one local authority finds a managerial process or makes a technological breakthrough which is important in improving efficiency it can quickly be transmitted to all the others and applied.

Mr. D. E. Thomas (Meirionnydd Nant Conwy): Does the Secretary of State accept that his response to my hon. Friend the Member for Brecon and Radnor (Mr. Livsey) was hardly relevant to his tenure of the Welsh Office? The right hon. Gentleman attacked the high-spending

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authorities but, whether we like it or not, in terms relevant to England, there are no high-spending authorities in Wales. He must accept that. Our problem in Wales concerns the effective delivery of services to meet needs. Will the right hon. Gentleman accept that, whatever the Government transfer of funds to local authorities, he requires a mechanism that establishes needs? The rate support grant mechanism does not do that. We have a graduated expenditure calculation, but that does not necessarily reflect the reality of the social and economic needs of the areas or the services.

In his statement the right hon. Gentleman stressed the need for additional allowance for key county council services. Will he identify to the House and to Wales what he regards as the key local authority services in Wales? Do they include social service provision, through the personal social services, for the elderly, the provision of education services for the under-fives, or the provision of housing services by local authorities, which are substantially underfunded?

Mr. Walker: The most important service in the distribution, and the one involving the greatest expenditure is, of course, education. The increased costs will be involved in the recent settlements in education.

On the question of needs and services, of course all concerned with the distribution of money throughout the local government system will be anxious to identify quickly and sensibly the difference in needs and requirements. Politicians of different political parties and, indeed, within the same party, will always have different priorities in defining the needs that are the most urgent. The very fact that the Government are to provide 66 per cent. of total local government expenditure in the Principality, compared with 46 per cent. in England, illustrates that we have identified the differences in both the rateable value base and the needs in Wales, and therefore that we need the reallocation. I am anxious to discuss with the local authorities any improvements that we can make in identifying the needs.

Mr. Gwilym Jones (Cardiff, North): I applaud my right hon. Friend for coming forward with a very generous settlement—7.4 per cent. more than last year. The ball is now in the local council's court, and my constituents in Cardiff are very concerned about the rates that they have to pay, after last year's excessive rate increase of 24 per cent. Given that next year is again not a local council election year, we dread another savage rate increase. Will my right hon. Friend use all his efforts to ensure that local council's minimise the burden to the ratepayer, perhaps by publishing the savings that might be made by each council in Wales if they contracted out local services.

Mr. Walker: The new Local Government Bill, which is going through the House at the moment, contains important provisions on that issue. There is no doubt that in a whole range of activities—and this certainly applied to energy efficiency when I was in my previous post as Secretary of State for Energy—the difference in performance between one local authority and another is dramatic. Millions of pounds are wasted through the inefficiency of some local authorities. As my hon. Friend pointed out, people in Cardiff and elsewhere in Wales are

interested in keeping rates at a low and sensible level and that applies particularly to the business community, especially new businesses and enterprises.

Mr. Alun Michael (Cardiff, South and Penarth): Will the Secretary of State accept that local authorities in Wales—particularly Cardiff, to which he has just referred—have had great success in attracting jobs and improving efficiency? Will he give us answers to some specific questions? In his statement he said that he would state in the autumn how moneys would be distributed among services. Does he not recognise that local authorities need to know that distribution now, so that they can work on their rating strategy? Does he not recognise, too, that the requirements are well in excess of the figures that he gave?

Let me offer the right hon. Gentleman some figures for Cardiff. In order to stand still, Cardiff requires 13 per cent., 8 per cent. of which is to allow for wage increases, on which the local authority has no choice because the settled increase for administrative staff is 6.75 per cent. and the settlement for manual workers is likely to be about 10 per cent. Will he accept that that is well in excess of the increase that he has offered the Welsh authorities, which is less than 6 per cent.?

Does the right hon. Gentleman recognise that there are other costs that fall on local authorities and that he has made no allowance for the expenditure that will be necessary to prepare for the poll tax if he and his colleagues insist on proceeding with that foolish and expensive tax? Does he realise that no sum is provided to prepare for the change in housing benefit and that there are other expenditures, to which I shall refer on another occasion, for which he has failed to allow in opting for a settlement that is slightly in excess of general price inflation and bears no relationship to the needs of local authorities?

Mr. Walker: The settlement is 5.3 per cent. above the local authorities' budgets for last year. When local authorities mention the sums that they will need to spend if they are to stand still, as it were, they tend not to include a large element to reflect improved efficiency.

The hon. Gentleman rightly says that manual and administrative workers have received pay increases that have been way above the rate of inflation. If local authority associations negotiate with manual workers and give them an increase that is double the rate of inflation, I hope that their intention is to absorb a substantial part by means of improved efficiency. Local authorities cannot continue saying "We shall agree to a pay increase that is double the rate of inflation," without looking for improved efficiency and performance. That is important.

Mr. Nicholas Bennett (Pembroke): Is my right hon. Friend aware that this extraordinarily generous settlement for Wales will be greeted with acclamation and that the points made by the right hon. Member for Swansea, West (Mr. Williams) in his well-prepared carp, which he obviously had ready before hearing the details of the settlement, will not be accepted? When we press for greater efficiency, can we ensure that local authorities in Wales do everything that they can to put services out to tender and to privatise wherever possible? That will mean that there will be scope for rate reductions this year.

Mr. Walker: My long experience enables me to assure my hon. Friend that no Government and no Minister will

ever receive acclamation for a rate support grant. It will always be suggested that the settlement is wrong, that it should be more generous and that certain parts of it are ill-founded. However, I believe that this is a fair and reasonable settlement. It is important for local authorities throughout the Principality to look to the authorities that have succeeded in improving their efficiency and to consider why they have been able to do so, and where possible copy their example.

Mrs. Ann Clwyd (Cynon Valley): I am glad that the Secretary of State mentioned his previous office, which was that of Secretary of State for Energy. Why should we be expected to swallow his strictures when he talks about cost-efficiency and controlling prices, when he has recently been rapped over the knuckles for spending £23 million of taxpayers' money unnecessarily on persuading people to tell Sid, during his tenure as Secretary of State for Energy?

It is difficult for Welsh local authorities to take the right hon. Gentleman seriously in the light of his record. How can we be expected to take seriously his statements in the Welsh Grand Committee when he says that the sorts of problems that face the inner cities are those faced by the Welsh valleys and that the ways of dealing with inner-city problems should be applied also to the Welsh valleys? At the same time he is expecting local authorities in the valleys, which face high unemployment, bad housing and pressures on social services and the Health Service, to accept the rate support grant that he has announced. Does the right hon. Gentleman really expect us to take him seriously?

Mr. Walker: I was not the subject of any great strictures about telling Sid. I suggest that the hon. Lady reads fully the relevant report, in which it suggested that there is the possibility of a division of view. I am delighted to say that throughout the country 5 million people took advantage of being able to become participants in an important industry. I have no regret whatsoever about the manner in which that was done.

There are problems in the valleys and resources are needed if they are to be tackled. The resources that will be made available in allocations and increases in expenditure and on the budgets of last year are above the rate of inflation. We shall do better than England, because there are parts of the Principality with problems that are worse than those to be found in England.

Mr. Paul Flynn (Newport, West): We have heard a statement that will be received with great resentment by Welsh local authorities. The Secretary of State has already confessed his lack of interest in and understanding of RSG, and nothing illustrated that more than his delivery of the statement and his answer to questions. Practically no illustrations have been drawn from Welsh local authorities and it seems that the right hon. Gentleman is suffering from the caricature of local authorities that has been presented by the Government. The right hon. Gentleman shows no understanding of the splendid work of many local authorities, including Newport borough council, which for many years has provided key services of great value. Will you look to your own Department, which was condemned only last week by the Public Accounts Committee for showing no serious concern for mismanagement, collapse of control and the financial anarchy of a body over which you have sponsorship and control?

Mr. Speaker: Order. The hon. Member for Newport, West (Mr. Flynn) had better learn that I am "you".

Mr. Flynn: I ask the Secretary of State to consider the position of local authorities in Wales and to understand that the missing word in his statement is "cuts". The grant percentage is 66.6 per cent. Does he agree that the percentage for every previous year has been above that? It was 66.7 per cent., and in 1980-81 it was 73.4 per cent.

Mr. Walker: The hon. Gentleman has put on display his ignorance of the rate support grant mechanism. If he reads my statement carefully he will find that the percentage grant is identical to that which applied last year. The reason for that is the change that has taken place in the provision for teachers' salaries. The reality is that the settlement is sensible and generous. I have met local authority representatives today to discuss these matters with them, and I am glad to say that their approach is far more constructive, objective and sensible than that displayed by the hon. Gentleman.

Mr. Roy Hughes (Newport, East): We are told that our local authorities are beginning to plan their budgets for next year, and I note that the Secretary of State wishes to assist in the process. Will the right hon. Gentleman appreciate that his offer can be interpreted as a threat, bearing in mind that the Government have taken £672 million from our local authorities in Wales since 1979? When will the Government provide the revenue that local authorities in Wales need so that they can provide the level of social services that are needed by the people? There is an aging population, and there was a transfer recently of certain responsibilities from the Department of Health and Social Security to local government.

Does the Secretary of State recognise that Wales has a greater proportion of older houses than any other area of the United Kingdom? When will the Government unleash the purse strings, bearing in mind especially the receipts from the sale of council houses, and enable local authorities to tackle this important social issue? Is there any need for me to remind the right hon. Gentleman of the mass unemployment with which Wales is afflicted, which is not disguised by restart programmes or by fiddling with the figures? According to the Government's recent submission to the EEC, the activity rate of Wales is lower than that of any other part of the United Kingdom. Does the right hon. Gentleman recognise that our local authorities could play a major part in rectifying that problem?

In reality, our local authorities need a 10 per cent. increase on the previous settlement if they are merely to continue with their existing policies. The bulk of such an increase would be taken up by the justifiable teachers' settlement, and, as my right hon. Friend the member for Swansea, West (Mr. Williams) said, there are other major settlements in the pipeline, including those of the police, the firemen and local authority manual grades.

Finally, will the right hon. Gentleman recognise that he has a major task to justify his appointment and to provide our local authorities with the wherewithal that they need? Instead, it seems that they can look forward only to a poll tax and the decimation of education and other vital services.

Mr. Walker: In the coming year, local authorities can look forward to an allocation of £105 million more than

[Mr. Walker]

they budgeted to spend this year. A great tale of woe and misery comes from the Opposition. Such a constant, mournful tone does a lot of damage to the atmosphere of the Principality. It is time that the Opposition cheered up. I agree that housing is a serious problem. That is why I am pleased that my predecessor managed to do much more about home improvement than the previous Labour Government did.

Rate Support Grant (Scotland)

5.40 pm

The Secretary of State for Scotland (Mr. Malcolm Rifkind): With permission, Mr. Speaker, I wish to make an announcement about local authority expenditure and rate support grant in Scotland for 1988-89.

I propose to set the level of provision for local authority relevant current expenditure in Scotland at £3,640 million. This figure allows authorities to maintain their spending broadly level in real terms, and it includes provision for costs that local authorities will incur in preparing for the introduction of the community charge. The figure represents an increase of 9 per cent. over provision in the current year, and £170 million over the provision for 1988-89 in the public expenditure White Paper.

Aggregate Exchequer grant will be £2,372 million. This will maintain, at present estimates of loan charges and other financing items, the grant percentage which is being paid this year — 55.5 per cent. — and will provide an additional £180 million over the current year's figure.

This is a realistic and a fair settlement. In reaching it I have taken careful account of the views that the Convention of Scottish Local Authorities expressed to my hon. Friend when they met him on 3 July. For the second year running, the settlement is based on local authorities' own budgets and the grant percentage is being maintained. If authorities adjust their spending to guideline this year and budget at guideline next year, average rate increases will not exceed the rate of inflation. I hope that local authorities will respond positively to this settlement.

Mr. Donald Dewar (Glasgow, Garscadden): There is some limited evidence in the statement that the right hon. and learned Gentleman is learning some hard lessons at this time, and that is perhaps something of a tribute to the electorate of Scotland. Is it not extraordinary that, only a week ago, Ministers were forcing through a measure to cut £202 million from local authority budgets in the general clawback, and that that figure is now incorporated in the calculations for 1988-89? It is an "Alice in Wonderland" situation and reflect no credit on the Scottish Office's consistency of approach. Will the Secretary of State accept that the logic is that the penalty for this year should now be cancelled?

The relevant expenditure to which he referred includes provision for additional responsibilities of one sort or another, which I understand are being shouldered by local government for the first time. Will he confirm that it includes, for example, £34 million that will totally take care of the final instalment of the teachers' pay settlement? Does the figure that he announced allow for a full settlement of the firemen's and police pay claim, or at least a calculation of it? How much has been put in for that? Has he added a figure for the considerable cost of implementing the Disabled Persons (Services, Consultation and Representation) Act 1986, which was skilfully piloted to the statute book last year by my hon. Friend the Member for Monklands, West (Mr. Clarke)? Will that sum have to be found at the expense of established expenditure if local authorities are to do what they should and what they want to do to help the disabled?

The right hon. and learned Gentleman referred to the cost of preparing for the introduction of the poll tax. He said that it was specifically taken into account in the

relevant expenditure figure. He will recall, of course, that the memorandum to the Abolition of Domestic Rates Etc. (Scotland) Act 1987 mentions a figure of £9 million for compiling the register. That has been seen as clearly inadequate and condemned by everyone—not only by councillors but by impartial officials—as simply not measuring up to the cost of the chaos and complications that the introduction of the poll tax will involve. As he has said that a specific figure has been included, will the Secretary of State say what it is and just how much he therefore thinks that the completion of the register will cost in 1988-89?

Will he accept that the distribution of the grant, the relevant expenditure and aggregate grant amount are vital? As he knows, this year, authorities such as Edinburgh, Glasgow, Stirling, Strathclyde and Lothian were given guidelines that meant expenditure at or below the previous year's budgets in real terms. I should like an assurance that, in 1988-89, there will be sufficient room for the figure that he announced and that it is his intention that no authority will get a guideline that, in real terms, is below this year's budget.

Will the Minister accept that there is little cause for satisfaction in the announcement? Discounting the special factors, as I understand it, the calculation for inflation is 4 per cent. Does he accept that that will be inadequate when measured against what will almost certainly happen in the 1988-89 pay round and the general rise in local government costs? Does the right hon. and learned Gentleman accept that, if the grant percentage had been held at 68.5, as it was in 1980-81, and applied to the relevant expenditure figure that he announced for 1988-89, it would have yielded another £550 million? Is it not a simple fact that the Government have a very long way to go if they are to undo the terrible damage that they have done to jobs, services and the fabric of local democracy in Scotland?

Mr. Rifkind: It is probably fair to say that the hon. Gentleman's comments represented a welcome for my statement. I appreciate that he had somewhat to qualify them for the purposes of the occasion, but nevertheless that is the reality behind his contribution. I noted that, last year, when I announced a generous settlement for local authorities, the hon. Gentleman informed me that it was because of the imminence of an election. Today, when I announced a generous settlement for local authorities, he informed me that it was the result of an election. [Interruption.] Perhaps the hon. Gentleman will conclude, whether circumstances are of one kind or the other, that the Government have been extremely fair to local authorities. I hope that local authorities will respond in a similar way.

The hon. Gentleman asked whether the penalty that was announced some time ago will be cancelled. No, it will not be cancelled. The hon. Gentleman knows perfectly well that, if local authorities reduce their expenditure, that sum will be returned to them for the benefit of themselves and their ratepayers.

The hon. Gentleman asked whether the £34 million represented the full requirement for the teachers' pay settlement. I confirm that it does. I am also happy to confirm that pay increases for police and firemen have been allowed for in the figures.

The hon. Gentleman asked me about the Disabled Persons (Services, Consultation and Representation) Act

1986. That is a matter for local authorities to decide on the basis of what they perceive to be their priorities within what we all agree is a generous provision. The hon. Gentleman asked me about the community charge provision. In the provision figures, we have assumed costs of £12 million. That figure comprises £9 million for the preparation costs of the community charge register and £3 million to cover the additional work load in housing benefit administration.

The hon. Gentleman asked me about guidelines. They will be considered over the next few weeks. I anticipate that local authorities will be informed of the level of individual guidelines in late September or early October.

The hon. Gentleman concluded his questions with the ritual denunciation that is required on such occasions. On this occasion, he does not feel strongly about the matter. The provision that I announced for local authorities is £3,640 million. The hon. Gentleman might like to know that the Council of Scottish Local Authorities budget projection for the year in question is only £3,679 million, and that is a difference of £39 million. On that basis, when we take into account the fact that its estimates for inflation are substantially greater than the actual expected rate of inflation, at the very least one will be entitled to assume that, if local authorities spend even on the basis that they are projecting, overspend next year should be infinitely smaller than that with which we are faced this year. Indeed, the figures that local authorities are announcing will be held against local authorities if in the event, despite such a generous settlement, we find degrees of overspending of the kind that we have seen in recent years.

Several Hon. Members rose—

Mr. Speaker: Order. I again appeal for brevity. Will hon. Members ask questions instead of making debating points? There are five Northern Ireland orders after this statement and time is getting on.

Sir Hector Monro (Dumfries): I congratulate my right hon. and learned Friend on the settlement. Perhaps even COSLA will begin to realise that the Government's economic policies are working to the benefit of local government. May I press him further on the guidelines? Will he do all that he can to bring local authorities whose guidelines are below assessed needs up to that level, and when he is working on the formula, will he keep in mind the importance of rural areas?

Mr. Rifkind: I give my hon. Friend that assurance. It is our aim to bring all authorities' guidelines up to assessed need, and I hope to make significantly more progress on that in the forthcoming year. My hon. Friend will appreciate that, this year, 11 more authorities had their guidelines brought up to assessed needs and all authorities with guidelines below assessed needs were still able to increase their spending in real terms. I take my hon. Friend's suggestion very much to heart.

Sir Russell Johnston (Inverness, Nairn and Lochaber): The Secretary of State said that he had taken careful account of the views of COSLA in reaching his decision on a settlement. In what respect did those views adjust his position? He said that the statement was based on local authorities' own budgets. Is it not true that they were based on his imposed guidelines? Is he really trying to tell us that the settlement offers any opportunity for an improvement in local government services?

Mr. Rifkind: I hate to disappoint the hon. Gentleman, but it is based on local authorities' own budgets. I said explicitly, and I am happy to repeat — the hon. Gentleman clearly missed that part of my statement — that the figure for grant is based on local authorities' budgets, after the selective action in respect of the two authorities which the House considered on Monday night, plus 4 per cent. to take account of inflation, plus the other components to which I referred. I am happy to reassure the hon. Gentleman on that point.

Mr. Nicholas Fairbairn (Perth and Kinross): I congratulate and thank my right hon. and learned Friend on his statement and on the provision that he has made. After what we went through on Monday evening, I hope that he will be anxious not only to punish the wicked but to reward the good — among them Perth and Kinross district council, which is prudent — when he pronounces his sentence. Is it not an amazing phenomenon, which it must be difficult for the Opposition to swallow, that even the extravagance of Socialist COSLA cannot be beaten by the success of Tory economics?

Mr. Rifkind: I am unable to improve on my hon. and learned Friend's remarks. In determining such matters, we try to give positive and genuine support to prudent local authorities.

Mr Dick Douglas (Dunfermline, West): Will the Secretary of State give us some insight into the influence which the Under-Secretary of State, the hon. Member for Stirling (Mr. Forsyth), had on the settlement? Did his persuasive skills manage to salve his conscience in relation to his strictures about the profligacy of local authorities?

More seriously, will the Secretary of State give me some advice on how I can go to places such as Valley Field and Oakley in my constituency, which have suffered from mine closures, and tell the people there that the Scottish Office feels justified in allocating £12 million for the poll tax but in excluding that area from urban aid? They have been hit severely by mine closures. Although we recognised the need to revive city centres, those areas in west Fife must also be revived, and we have had discussions with the Scottish Development Agency to that effect. How can I persuade the local authorities in those areas to pay attention to central Government when that Government are spending £12 million unnecessarily?

Mr. Rifkind: I am not familiar with the details of the hon. Gentleman's point about urban aid. The Government have made an extremely generous provision of urban aid, although we are not always able to meet every request that is made. But I hope that every request, especially those from areas of high unemployment, are considered sympathetically, within our overall capability. The hon. Gentleman will appreciate that the local communities which he represents will benefit from such a realistic and fair rate support grant settlement.

Mr. Bill Walker (Tayside, North): I thank my right hon. and learned Friend for this very generous settlement. Does it take into account the specific needs of areas such as Perth and Kinross, where Breadalbane is listed as an environmentally sensitive area? Will he confirm that no allowance is made for the dumping of nuclear waste on Schiehallion, which was one of the fairy tales put out by the Scottish National party during the election? Has he noticed the absence of the Scottish National party member for Angus, East (Mr. Welsh) —

Mr. Speaker: Order. I asked for questions, not debating points.

Mr. Walker: It is a very important question, because the hon. Gentleman was making some comments about a road in my constituency —

Mr. Speaker: Order. This is about the rate support grant.

Mr. Rifkind: The needs of my hon. Friend's constituency will be considered in the context of the guideless when they are announced. Financial support is given to environmentally sensitive areas, such as Breadalbane, but not through the rate support grant.

Dr. Norman A. Godman (Greenock and Port Glasgow): In the light of his announcement on Tuesday about the Inverclyde initiative, will the Secretary of State show much more sympathy to Inverclyde district council in its hour of desperate need? I remind him that unemployment on the lower Clyde is still scandalously high and that 1,200 employees at Scott Lithgow are still being forced to suffer because of the Government's bad faith in relation to the three Ministry of Defence orders which were promised 17 months ago. That promise has still not been honoured by the Government, who are quite without principle or humility.

Mr. Rifkind: If the hon. Gentleman was as fair and objective as he usually is, he would at least have prefaced his remarks by welcoming the substantial support for Inverclyde which I announced earlier this week and in respect of the land that is being released by Scott Lithgow to ensure industrial development and improvement of the infrastructure in that area. I am well aware of the needs of Inverclyde. The hon. Gentleman might ensure a sympathetic response if, when constructive contributions are made to his constituency, he at least had the fairness to acknowledge it.

Mr. Allan Stewart (Eastwood): Does my right hon. and learned Friend agree that, in view of the overriding need to maintain rigorous control of public expenditure in Scotland, this is by any standards a very generous settlement? Will he confirm that what he said about prudent authorities will apply to authorities in urban as well as rural areas? Does he agree that, after this generous settlement, it is high time that the Labour group on Strathclyde regional council announced an end to its policy of keeping police numbers below authorised establishment?

Mr. Rifkind: I agree with everything my hon. Friend said. If there is concern — as there understandably is — to ensure the maximum effort to deal with the problems of crime and dishonesty in Strathclyde, it is a matter of great regret that the region remains one of the few authorities, if not the only authority, in Scotland that is not making provision to enable the full utilisation of the resources available for its police service.

Mr. Jimmy Wray (Glasgow, Provan): Is the right hon. and learned Gentleman aware that local authorities can be prosecuted for failing to provide services for the disabled? Is he aware of the cost of implementing in Scotland the provisions of the Disabled Persons (Services, Consultation and Representation) Act 1987?

Mr. Rifkind: I take the hon. Gentleman's point, but I am sure that local authorities will be able to carry out their

statutory responsibilities under that Act when they remember that the provision announced today is £3,640 million. It should not be difficult for local authorities to carry out their minimum statutory requirements with such a provision.

Mr. Alex Salmond (Banff and Buchan): May I focus the Secretary of State's attention on need and on the agreed requirement for local authority services? Will he assure the House that the proposed settlement for next year will avoid the present ludicrous and disgraceful position where five local authorities are being penalised by grant penalty despite the fact that their budgeted expenditure is less than the agreed need assessment formula of his Department?

Mr Rifkind: I cannot give the hon. Member that assurance because he knows perfectly well that, not only do we have the objective of ensuring that those authorities with guidelines below assessed need have their guidelines increased, but that, even in the current year and the previous year, those authorities were allowed guidelines that enabled substantial increases in expenditure in real terms before any penalty was approved. I believe that that is the basis upon which these matters should be considered.

Mr. Tony Worthington (Clydebank and Milngavie): The Secretary of State will be aware that the announced settlement is a global sum and whether it is a fair settlement will depend very much upon the distribution of that settlement. Is the right hon. and learned Gentleman aware that, in terms of material received from his Department, Strathclyde was ranked first in terms of areas of deprivation and Borders was ranked ninth—the last in the list? Therefore, how does the right hon. and learned Gentleman explain that, in 1987, the assessed expenditure need of Borders was £582 per head and for Strathclyde £556 per head? That represents a difference of £26 per head, or about £51 million, which is the amount by which Strathclyde will be over guideline. Will the Secretary of State rectify that unjustifiable imbalance?

Mr. Rifkind: Whether this is or is not a fair settlement does not depend on distribution. It is a fair settlement because of the sums involved and the local authorities' own predictions as to what their requirements will be. Distribution is a separate matter and, as the hon. Gentleman knows—

Mr. Worthington *rose*—

Mr. Rifkind: If the hon. Gentleman will allow me a moment. The hon. Gentleman has had long, detailed experience within COSLA and he knows perfectly well that the distribution formula is not only discussed with the convention, but that the present distribution formula is one agreed by the convention. While the hon. Gentleman may represent an individual authority that has a difference of view on this matter, he knows perfectly well that the convention as a whole discussed those matters and there are no outstanding, significant differences between the Scottish Office and the convention with regard to the formula used for distribution. Therefore, if Strathclyde region has a difference of view on this matter, it is up to that region to persuade its colleagues on the convention who can then make representations to the Scottish Office.

Mr. Nigel Griffiths (Edinburgh, South): Will the Secretary of State explain why he will not restore the rate support grant settlement to the level of 1978-80 or 1981-82

in proportion to the amount levied on local rates? That would allow local councils to reduce rates this year by up to 15p in the pound.

Mr. Rifkind: I must inform the hon. Gentleman that, in the four years when the grant percentage was, for example, 68.5 per cent., the rates imposed on ratepayers in Scotland went up by 60 per cent. Therefore, the suggestion that ratepayers benefit from a high grant percentage would be true only if some local authorities did not abuse the situation to increase their expenditure and still impose heavy rates increases on the local people.

Mrs. Maria Fyfe (Glasgow, Maryhill): In the light of what the Secretary of State has just said about the convention being consulted and discussions taking place, does he not agree that he is being a bit disingenuous? The reality of those discussions is that COSLA representatives get told what the formula will be and they do not engage in a process of negotiation. Does the Secretary of State's statement mean that there will be real negotiations with the Scottish local authorities?

Mr. Rifkind: The settlement that I have announced today has already been referred to by a number of her hon. Friends as being an extremely reasonable and fair settlement. [HON. MEMBERS: "Who?"] That is the only inference that I can draw. Indeed, the hon. Member for Dunfermline, West (Mr. Douglas) asked me whether my hon. Friend the Member for Stirling (Mr. Forsyth) would be pleased with such a generous settlement? How are we to interpret that question except on the basis that I have suggested?

Mr. Alistair Darling (Edinburgh, Central): Will the Secretary of State consider making an earlier announcement as to the guideline for each region or district? Does he not accept that the important thing for each local authority is to know exactly what its guideline will be? Will he not allow time so that the authorities can make representations to him? Will he also consider publishing a definition, in clear and unambiguous terms, of what he considers to be excessive and unreasonable as regards local authority expenditure given the fact that the Minister said in the early hours of Tuesday morning: "there is no precise basis on which excessive and unreasonable expenditure is automatically triggered."—[*Official Report*, 20 July 1987; Vol. 120 c. 159.]

Mr. Rifkind: On the hon. Gentleman's latter point, we have had discussions on that matter and evidence was given to the Select Committee some time ago as to the basis on which those matters were approached.

I agree that the guidelines should be given as early as possible in the financial year. I have said that we would hope to be able to give them in late September. However, I hope that the hon. Gentleman will appreciate that we cannot consider individual guidelines until we know overall provision because, clearly, the two are directly and inevitably related. The provision is now known and we can now start working on the details of individual guidelines.

Mr. Martin O'Neill (Clackmannan): With regard to distribution, will the Secretary of State take account of the money that Central region spent on providing assistance to the National Coal Board for the development of Polmaise colliery? The Government's energy policy resulted in the closure of that colliery last week. Will the Secretary of State ensure that Central region will not be

[Mr. Martin O'Neill]

out of pocket as a result of the money that it spent to encourage the NCB with that project, which has now sadly ended?

Mr. Rifkind: The hon. Gentleman knows perfectly well that individual local authorities take responsibility for any specific use of their resources on matters that they believe to be important to their local communities. Our control is exercised with regard to the totality of that expenditure, not with regard to individual projects.

Mr. Brian Wilson (Cunningham, North): Does the Secretary of State agree that, in areas such as Cunningham with a 30 per cent. male unemployment rate, many people will be astonished by the selective profligacy of the Government because they are prepared to spend £12 million on the preparation of a poll tax register? Will the right hon. and learned Gentleman give an assurance that the idiotic enterprise in which he is engaged will be accounted for separately? If the cost of preparing that register turns out, as many suspect, to be more than £12 million, will local authorities be appropriately reimbursed?

Mr. Rifkind: The Department has made the best estimate of what the cost will be and we have suggested provision of the kind that I have mentioned today. In the context of the overall provision that I have announced today, I do not believe that anyone could seriously suggest that the sums involved are other than extremely modest and relevant to what is required in that respect.

Mr. George Foulkes (Carrick, Cumnock and Doon Valley): Does the Secretary of State agree on the importance of rural schools not just for primary education, but as a community resource in constituencies such as mine, North Tayside, Dumfries and others? Will this settlement enable Strathclyde regional council to keep open all the existing rural primary schools?

Mr. Rifkind: It is a matter for Strathclyde region to determine whether it wishes to do that. If it does and if that is the priority of the authority, there should be no difficulty given the vast sums allocated to Strathclyde region.

Mr. Kenneth Hind (Lancashire, West): Will my right hon. and learned Friend confirm that the percentage grant for Scotland is 55.5 per cent. compared with the grant of 46.2 per cent. for England and Wales? Does my right hon. and learned Friend agree that the increase in rate support grant for Scotland is 9 per cent. whereas in England it is only 7 per cent. and that that increase will involve an added £36 being spent on every person in Scotland by the Treasury? If that is correct, will my right hon. and learned Friend agree that Scotland is in an extremely privileged position in relation to the rate support grant and that that grant involves a massive transfer of resources from England and Wales to Scotland to improve employment in that region?

Mr. Rifkind: I do not entirely agree with my hon. Friend. The grant percentage in Wales is 66 per cent., certainly higher than in Scotland, but in a sense that does not tell us very much. The grant percentage for any territory — Scotland, England or Wales — is only an average figure. Within Scotland, Wales and England there are extremely wide ranges of grant percentage. In some parts of England the grant percentage is lower than in Scotland and in some parts of Scotland it is lower than in England. Throughout the United Kingdom the grant percentage of any individual local authority depends upon the resources it can raise through the rate poundage applied in that part of the country. If certain parts of Scotland, England and Wales are less able to raise high resources from within the local community, inevitably that increase will be averaged in that locality. That is the position, and it should be borne in mind.

Mr. Speaker: Application under Standing Order No. 20.

Mr. John McFall (Dumbarton) *rose*—

Mr. Speaker: The hon. Gentleman has not been rising. [Interruption.] I did not see the hon. Gentleman rising. If he has been rising regularly, that is my mistake, and I shall call him.

CSG

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

23 July 1987

Robin Young Esq
Private Secretary to the
Secretary of State for the Environment

Dear Robin

JBM

RSG SETTLEMENT

... I attach some briefing on Treasury points on the RSG settlement. I am copying this to David Norgrove (10 Downing Street).

*Yours
Alex*

A C S ALLAN
Principal Private Secretary

TREASURY BRIEFING ON THE RSG SETTLEMENT AND PUBLIC EXPENDITURE

1. Is the settlement consistent with decisions at Cabinet this morning?

Yes. Cabinet discussed the public expenditure prospects in the light of RSG proposals, among other factors.

2. Extra provision signals a change in spending policy?

Nonsense. Happens every year - and smaller increase in provision than last year. Government remains committed to continuing to reduce public spending as a proportion of national income. No change.

3. Pay increases will bust LA provision/planning total?

Plenty of scope for efficiency savings to offset any increase in overall pay bill. In local authority sector Audit Commission has identified scope for £2bn savings.

4. LAs will increase spending again as much as in 1987-88?

No:

- tougher RSG settlement for 1988-89 than 1987-88 (£¼ billion increase in grant compared to £1.2 billion in 1987-88).
- **big** increase in teachers' pay took place this year.
- plenty of scope for efficiency savings.

5. Local authorities bound to overspend again?

No reason to assume overspend inevitable. Substantial scope for improvements in LA efficiency - £2bn identified by Audit Commission, £500m could be saved by competitive tendering. But public spending plans contain substantial Reserves to accommodate any overrun.

6. Extra provision means planning total for 1988-89 inadequate?

£838m increase in provision is a claim on £5½ billion Reserve for 1988-89 in the usual way. Much smaller than £2 billion increase at this time last year.

N.B. All figures relate to England only.

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Treasury Chambers, Parliament Street, SW1P 3AG

Robin Young Esq
 Private Secretary to the
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London
 SW1P 3EB

NBM.

Dear Robin,

22 July 1987

RSG SETTLEMENT ANNOUNCEMENT

The Chief Secretary has seen a copy of the draft statement attached to your letter of 20 July to David Norgrove.

The Chief Secretary has two doubts about the fourth paragraph, which deals with current expenditure provision.

First, he would prefer to avoid references to pay in the statement. Although the reference to education pay covers only the announced costs in 1988-89 of salary restructuring from October 1987, it would be better not to invite questions, which could easily lead on to queries about the provision that the Government has made for teachers' pay from April 1988.

He is convinced that the statement must avoid any reference to police and fire pay. It would be very difficult to avoid direct questions about the provision made for these pay awards from the Autumn of 1988. Some stylised assumptions have been used in the arithmetic underlying the discussions in E(LA), but these were not proper forecasts. Because police and fire pay are linked to earnings in the economy generally, if the assumptions came out they might be misinterpreted as a Government view that there would be little or no fall over the next year in the nominal rate at which earnings were increasing. That would be most unfortunate. The draft as it presently stands suggests that increases above the rate of inflation are acceptable where the Government has a say, but not where it does not. This carries unfortunate signals for public sector pay policy generally.

Second, he feels the paragraph should reflect more precisely the nature of the agreement recorded in the Lord President's letter of 15 July and endorsed in the minutes of E(LA) the

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following day. This would emphasise that the level of provision is to be £27.538 billion, and put this figure at the beginning of the paragraph, as the corresponding paragraph does for AEG.

The Chief Secretary would, therefore, like to see paragraph 4 redrafted as:-

"I propose to set current expenditure provision at £27.538 billion. This is a cash increase of £838 million on the provision for 1988-89 published in the 1987 public expenditure White Paper, and represents a 7 per cent increase on the gross amount provided for the current year. It will allow authorities in aggregate to hold their spending broadly level in real terms. Rate and precept limited authorities will be set Expenditure Levels which imply real reductions in spending in most cases. Accordingly, there will be room for larger than average increases for other authorities."

The first paragraph on the final page will need redrafting to remove the present references to teachers' pay in 1988-89.

The Chief Secretary is concerned at the juxtaposition of paragraph 5 and 6. In paragraph 5 the statement refers to the increase in local authority expenditure in 1987-88 at twice the rate of inflation. In paragraph 6 the statement refers to the present "tough pressures" "continuing". In order to avoid highlighting the fact that we are not increasing the pressures, despite this year's overspending, the Chief Secretary proposes you delete the second sentence of paragraph 5 and redraft the last sentence of paragraph 6, to present it more positively: "I do not propose any major changes in the mechanisms for grant distribution and, as this year, authorities spending^{up} will lose grant."

The Chief Secretary is also concerned at the reference to rate increases in paragraph 7. To the unsophisticated observer the combination of a cash increase in grant of 5½ per cent, and provision growing in line with inflation would suggest that on average, there should be real rate reductions if authorities were to spend in line with inflation. A real terms rates standstill implies that we expect overspending. The Chief Secretary would therefore prefer to see the second sentence deleted from paragraph 7.

Your Secretary of State is, of course, likely to be questioned on pay, the realism of the figures, given last year's outturn and the prospect for rates next year. We clearly need an answer to the question of whether and why, with the same grant percentage and unchanged mechanisms, we expect local authority spending to conform more closely to our plans than

in 1987-88. In this context the Chief Secretary thinks it would be useful if your Secretary of State could beef up the reference to the Local Government Bill and spell out the measures that could generate savings. He would be grateful if you could consider whether there are any other factors that could be added.

As I mentioned to you on the telephone we would be grateful for an early sight of the defensive material which is being provided for your Secretary of State and your Press Office briefing. The fact that the RSG Announcement is being made on the same day as Cabinet discussion of public expenditure makes it all the more important that the line to take is concerted between the Treasury and Department of the Environment.

I am copying this letter to David Norgrove at No. 10, to the Private Secretaries to E(LA) members, Murdo Maclean and Rhodri Walters in the Chief Whips Office and to Trevor Woolley in Sir Robert Armstrong's Office.

Yours,

Jill

JILL RUTTER
Private Secretary

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✓

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01-934 9000

R U Young Esq
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

21 July 1987

Dear Robin, NBM.


My Secretary of State has seen the draft oral statement for Thursday. The reference on the first page to an additional element for the cost of pay in those areas where the Government has direct influence sits uneasily alongside the reference on the second page to the need for other settlements to reflect the continuing low rate of inflation. Furthermore, it is important that there is clear explanation that the additional element covers the follow-on cost of the 1987 school teacher pay settlement and not the cost of any settlement from April 1988. My Secretary of State proposes the following amendment:

'..... with an additional element to reflect the full year cost of the 1987 pay settlement for school teachers as well as the cost of pay for the police and fire services.'

As a consequential amendment to the final page of the statement, the reference should be to the "full year costs of the 1987 school teachers' pay settlement".

My Secretary of State has noted the reference in the statement to an unallocated margin and has stressed the importance of not suggesting a different scale of margin from last year if questions arise.

I am sending copies of this letter to recipients of yours. (ie David Norgrove, ECHA) Private Secretaries, Murdo Maclean, Rhodri Walters and Trevor Woolley.)

Yours sincerely,


R. L. SMITH
Private Secretary

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COBG

From: THE PRIVATE SECRETARY

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HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

NBM

21 July 1987

Dear Sir,

RSG SETTLEMENT ANNOUNCEMENT

The Home Secretary was grateful for the opportunity to comment on this draft announcement.

Given that the Government has no direct influence over the pay arrangements for the fire service, we feel that the first sentence of the fourth paragraph might be re-drafted to read at the end: "...with an additional element to reflect the cost of pay in those areas - education, police and fire - where there are special arrangements".

I am copying this letter to the recipients of yours.

Yours sincerely,

P J C MAWER

R U Young, Esq.,

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