



Y SWYDDFA GYMREIG

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switsfwrdd)
01-233 8545 (Llinell Union)

ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU

WELSH OFFICE

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switchboard)
01-233 8545 (Direct Line)

FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

*PA,
Came too late to show
the PM. Told
Wales no objection
MS 28/7
28 July 1982*

Dear Michael

LOCAL GOVERNMENT EXPENDITURE, WALES

...

I enclose a copy of the text of the oral statement to be made by my Secretary of State later today.

I am sending copies to the Private Secretaries to the Leader of the House, the Paymaster General, the Chief Whip (Lords and Commons), the Lord Privy Seal, the Secretaries of State for the Environment, Scotland, Education, Transport, Health and Social Services, Trade, the Chief Secretary, the Home Secretary, Sir Robert Armstrong and the Chief Press Officer at No 10.

*Yours ever
Adam Peat*

A E PEAT

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1



PARLIAMENTARY STATEMENT BY SECRETARY OF STATE FOR WALES 28 JULY 1982

LOCAL AUTHORITY EXPENDITURE IN WALES

The Government is determined that local authority current expenditure should be reduced. In Wales local authorities generally have made efforts to meet the Government's expenditure targets, and I pay tribute to them for the efforts they have made. Unfortunately, however, there still remained an overspend of some £13 million on their 1981-82 target, which was expressed in volume terms. In 1982-83 revised budgets suggest an overspend of some £25 million on total expenditure, £36 million on current.

Against this background I have decided that there should be a grant penalty of £2.5 million in respect of 1981-82 and grant holdback of £5 million in respect of 1982-83. I have previously made it clear that the holdback in respect of 1982-83 will be applied differentially, with exemption for those authorities spending at or below their targets. Supplementary Reports to give effect to these decisions will be presented to Parliament in due course.

This background has also influenced the proposals I have decided to make in respect of 1983-84.

First of all, I have reviewed the plans for Welsh local authority current expenditure set out in the last Public Expenditure White Paper. I propose that the plans should be adjusted to £1205 million. This will be an increase of £19 million. It will allow local authorities to spend nearly 4% more than the total of this year's revised budgets. Since authorities collectively may spend, if past trends are repeated, in the region of 1% less than their budgets, it will be equivalent to about a 5% increase. In addition, I intend to increase the amount

/...

Local Government Expenditure (Wales)

3.37 pm

The Secretary of State for Wales (Mr. Nicholas Edwards): The Government are determined that local authority current expenditure should be reduced. In Wales local authorities generally have made efforts to meet the Government's expenditure targets, and I pay tribute to them for the efforts that they have made. Unfortunately, however, there still remained an overspend of some £13 million on their 1981-82 target, which was expressed in volume terms. In 1982-83 revised budgets suggest an overspend of some £25 million on total expenditure, £36 million on current.

Against that background I have decided that there should be a grant penalty of £2.5 million in respect of 1981-82 and grant holdback of £5 million in respect of 1982-83. I have previously made it clear that the holdback in respect of 1982-83 will be applied differentially, with exemption for those authorities spending at or below their targets. Supplementary reports to give effect to these decisions will be presented to Parliament in due course.

That background has also influenced the proposals that I have decided to make in respect of 1983-84. First, I have reviewed the plans for Welsh local authority current expenditure set out in the last public expenditure White Paper. I propose that the plans should be adjusted to £1,205 million. That will be an increase of £19 million. It will allow local authorities to spend nearly 4 per cent. more than the total of this year's revised budgets. Since authorities collectively may spend, if past trends are repeated, in the region of 1 per cent. less than their budgets, it will be equivalent to about a 5 per cent. increase. In addition, I intend to increase the amount planned for local authority capital spending by £17 million.

In support of the increased level of current spending I propose a total aggregate Exchequer grant in Wales of £975 million in 1983-84. The amount actually distributed will depend on whether Welsh local authorities spend in accordance with the target that I am proposing. If they do, it should mean that many authorities will find that they need no rate increases at all to finance their current expenditure. In those circumstances our present estimate is that aggregate Exchequer grant would amount to about 70 per cent. of relevant expenditure.

I shall be discussing these proposals with the local authority associations within the framework of the Welsh consultative council on local government finance. I shall also be discussing with them the part that individual authority spending targets might play in securing our target for next year.

Mr. Alec Jones (Rhondda): Is the Secretary of State aware that this statement will be greeted with dismay by local authorities in Wales, which are already finding it increasingly difficult to maintain their services, and also with a feeling of bitterness? The first paragraph of the statement refers to the efforts that the local authorities have made. The Secretary of State paid tribute to them for their attempts to co-operate. Does not the Secretary of State believe that it is a shabby reward for their efforts to be penalised to the extent of £2.5 million for 1981-82? Does he not think that such treatment is hardly conducive to

good co-operation between himself and local authorities in future? For 1982-83, the right hon. Gentleman talks about an overspend of £25 million. Will he confirm that that overspend contains some payments that may be made to the advanced further education pool? Therefore, is there a possibility that the overspend figure will be less?

For 1983-84, does the Secretary of State agree that he is painting too rosy a picture when he says that if local authorities spend in accordance with his demands there will be no need for any rate increases? The Secretary of State talked about a 4 per cent. increase in public expenditure. Is not that really a cut in public expenditure? That 4 per cent. is surely insufficient to meet the Government's assumptions of pay increases of 4 per cent. and price increases of 7½ per cent? If those assumptions are wrong, the cut will be greater. That unreasonable assessment of local authority needs, plus the 2½ per cent. reduction in grant, represents a cut in cash terms of about £60 million. That £60 million can be met only by increased rates or by cuts in services.

Will the Secretary of State confirm that this is the third consecutive year in which he has proposed cuts in the percentage of grants when the domestic ratepayers in Wales have already suffered a loss of 18½p of domestic relief? Does the Secretary of State agree that that settlement must mean rate increases, job losses or reduced services in the local government sector or a combination of all three?

Mr. Edwards: The reason why I am imposing penalties for 1981-82 and 1982-83 is that expenditure exceeds provision. I have always made it clear to the authorities that if they could not reduce their expenditure I should have to consider taking this course. The local authorities have reduced their expenditure. That means that the withholding that I have had to apply is less and at a later stage than it would otherwise have been. Penalties on the scale of those in England, where overspending has been greater, have not been incurred.

The right hon. Gentleman referred to the way in which local authorities have responded over a period. I pay tribute to them for that. However, the steady progress that they have made has meant that we have been able to give them an easier target at each stage than in England. They have not had to start from such a difficult position. For example, in England the provision shows a 2 per cent. increase over current plans compared with a 4½ per cent. increase in Wales. This year, as last year, I have been able to make extra capital provision available to local authorities. That shows the direct relationship between cutting current expenditure and getting extra money for capital spending.

The right hon. Gentleman made a specific point about education. Today I have given the local authorities the figures for holdback in 1982-83, but we shall have to lay measures in Parliament in the autumn and I shall consider any general representations that are made on the detail before we do so.

As to rate increases and the assumptions made, it should be clearly understood that the assumptions are realistic. The authorities must understand that they have a choice. If they can hold their wage increases and the total level of their wage costs in low single figures and reach the targets that I have set, there is no reason why there should be more than minimal rate increases. They have a direct choice whether they put an extra burden on their

[Mr. Edwards]

ratepayers or whether they make a real effort to cut expenditure as they can. There is no doubt that the numbers employed in local government in Wales, which were reduced by only 2 per cent. last year and by nothing at all in the last quarter, leave room for further improvement.

Mr. Ian Grist (Cardiff, North): Is my right hon. Friend aware of the welcome that Conservative Members give his efforts to control local government expenditure and the resulting increase in rates, which affects jobs and the livelihood of the people of Wales? Are South Glamorgan council and Cardiff city council among the councils that have overspent and are any penalties to be borne by them as a result?

Mr. Edwards: I think that I am right in saying that Cardiff is one of the councils that have overspent. My hon. Friend is absolutely right that additional rates are a direct disincentive to job creation and a direct penalty on productive companies. I must be the prime objective of local authorities to seek to hold down rate bills. That is why I made the switch in the domestic rate last year, to which the right hon. Member for Rhondda (Mr. Jones) referred.

Mr. Edward Rowlands (Merthyr Tydfil): Has not the Secretary of State been unable to deny what my right hon. Friend the Member for Rhondda (Mr. Jones) said, which is that there will be a burden of £60 million on ratepayers as a result of the cuts and changes that he is proposing to make? Is he aware that if he continues to turn the screw on some aspects of local authority expenditure, for example in Mid-Glamorgan, education for the under-fives in the county which we have had for over 60 years could be destroyed? Does the right hon. Gentleman want to go down in history as the Secretary of State who reduced educational opportunities for young people?

Mr. Edwards: It is not a cut but an increase in provision. It is money that has to be found. If the local authorities can control their expenditure, they can maintain services. Which services they provide is a choice for them. Many local authorities have shown by their policies that they can maintain services and make cuts. For example, Dyfed county council has just issued a statement saying that it will not be penalised because it is the only county in Wales that has fully met the target. It is fully maintaining services. However, I have to say even to that council that I wish that it had made further cuts in current expenditure rather than making them out of capital and by altering the excessive assumptions that it made previously about wage increases and the level of inflation.

Mr. Roy Hughes (Newport): Does the Secretary of State believe that he is adequately considering local

authorities' problems, bearing in mind the tremendous social problems that they are experiencing as a result of mass redundancies, especially, in areas such as mine, in the steel industry? Far from threatening them as he is doing and putting ever more stringent tax limits on them, does he agree that he should be treating them far more generously?

Mr. Edwards: I have tried, by working closely with local authorities, to achieve their co-operation to avoid many of the complexities and difficulties that have arisen in England. At each stage, Welsh local authorities have had reasonable targets and have come fairly close to reaching them in the past. I hope that they will continue to do that and remember that the greatest single contribution that they can make to reducing unemployment is to keep rates down.

Mr. Tom Ellis (Wrexham): Is the Secretary of State aware that in some Welsh counties, parents are being asked to spend up to one-seventh of their weekly incomes to transport their children two and a half miles or more along busy main roads to school? When he makes his rate support grant allocation, will he bear in mind that what is happening is the ending of 100 years of universal free education?

Mr. Edwards: The choice of how to spend resources remains with local authorities. As the hon. Gentleman knows, there is a substantial reduction in pupil numbers that has not yet been reflected in reduced local authority spending. I hope that he will note that Wrexham Maelor is one of the largest over-spenders and will incur severe penalties. That will encourage it to take the action that other Welsh local authorities with similar problems have succeeded in taking without making reductions in services.

Mr. Ioan Evans (Aberdare): Is the Secretary of State aware that Welsh local authorities' services have been cut to the bone and that his statement will entail not the worsening of services but the possibility of their ending? As unemployment has doubled since the Government took office, does the Secretary of State agree that, as in the 1930s, public works schemes should be set up to get unemployed building workers, for example, involved in local authority works rather than having to take the dole, as they must do now?

Mr. Edwards: It is absurd talk about the ending of local authority services when the level of provision in real terms is still roughly what it was in the mid-1970s. No one talked in those terms then. I repeat that, because of the cuts that Welsh authorities have achieved in current expenditure, I have been able in two consecutive years to make additional capital allocations for them to spend. That is just what the hon. Gentleman urges me to do.



Prime Minister (2)

JV
BI

Mus 27/7 2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/15220/82

Your ref:
26 July 1982

See list

MH

I have seen your letter of 20 July to Leon Brittan.

My principal concern is that whatever arrangements are arrived at for Wales there should be seen to be broad parity of treatment with what we have agreed for England. This means that, while I appreciate the arguments you make about how close Welsh authorities have come to their 1981/2 volume targets, I think it would be difficult for me if the overspend in that year is completely disregarded in fixing grant reductions. This is particularly so since I am preparing to publish the English Supplementary Report for 1981/2.

I am generally content with your suggested criterion for fixing the amount of the reduction to be made. We calculate this gives the following results for the 2 years:

	(1) English Overspend	(2) English Holdback	(3) (2) as % of (1)	(4) Welsh Overspend	(5) Welsh Holdback
1981/2	£813m (Nov '80)	£202m	24.8%	£21m	£5.2m
1982/3	£1431 (cash)	£312m (cash)	21.8%	£25	£5.4m

You will see that I think it appropriate to estimate the gross liability to holdback in respect of 1981/2 using the £21m figure for the overspend in Wales. This is because the figure for English overspend in that year is gross of expenditure on clearing up the severe winter and it is necessary to compare like with like. Of course in applying the holdback to individual authorities some will have their actual winter expenditure disregarded as we have agreed and their liability to holdback will be reduced. But we should start from the right baseline.

I am copying this letter to those who received copies of yours.

Yours ever
MH

MICHAEL HESELTINE