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The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

15 July 1986

CONFIDENTIAL

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**RATE SUPPORT GRANT SETTLEMENT - 1987/88
UNALLOCATED MARGINS**

At E(LA) yesterday I commented on your proposals to introduce an "unallocated margin" of 5 per cent in England next year. I share some of the fears expressed about the problems that will face English Departmental Ministers in putting this over and Kenneth Baker raised some powerful points about the likely political difficulties.

It may be helpful if I clarify the Welsh position.

I believe the use of the term "unallocated margin" in the present connection is misleading. The Chief Secretary's letter of 10 July to the Lord President makes it clear that total provision is to be allocated to services: the proposition is that it should not be wholly reflected in GREs. This is a device I used in the 1986/87 Wales settlement at the request of the Welsh local authority associations. GRE was set at 90 per cent of provision, all of which was allocated to services. The Associations have asked me to adopt this device again in 1987/88 and I propose to do so. The arrangement moderates the impact of the tough schedules I am using on authorities spending furthest from GRE. It also increases pressure on those authorities who would otherwise have spent between the "normal" GRE level and the 10 per cent threshold.

GREs on this basis are not seen as a measure of absolute need but as a yardstick for the pattern of relative need between authorities, purely for the purpose of distributing block grant. The RSG report for 1986/87 made

/it clear that ...

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it clear that the full relevant expenditure figure was the one I considered appropriate for local authority spending. There is no question of a distinction being drawn between the level of expenditure considered by central Government to represent need as opposed to one which local authorities might realistically achieve.

The device has worked well in Wales and I see no technical difficulty if you were to adopt a similar scheme (at the 95 per cent level you propose) in England. It follows from the nature of the device that its adoption would have no relevance to the formula consequential to the England increase, since that is calculated on the increase in service provision and is unrelated to the level at which GREs are set.

/ Copies of this letter go to the Prime Minister, members of E(LA) and Sir Robert Armstrong.

John Lewis

W. G. A. G. H. M. O. R. E.

Approved by the Secretary of State
and signed in his absence