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CONFIDENTIAL

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

28 October 1985

Local Chief Secretary

"TERRITORIAL" IMPLICATIONS OF LOCAL AUTHORITY CAPITAL
OVERSPENDING IN ENGLAND

My officials have been in correspondence with yours about the need to carry forward into this Survey and future Surveys arrangements analogous to those adopted in last year's Survey to compensate my block (and, by extension, Nick Edwards' block) for the consequences of local authority capital overspending in England.

Michael Ancram and I had regarded this as settled in principle by the E(A) discussions last November, at which he registered our view strongly, and had regarded your predecessor's Private Secretary's response to Nick Edwards' Private Secretary's letter of 29 November 1984 as implicit confirmation of this. However, the lack of progress in the recent discussions between officials suggest that there is some doubt about this. Consequently, I think that it is important that I seek confirmation from you that you are not seeking to introduce a change of principle.

The arrangements in last year's Survey were straightforward because reductions were being imposed on English programmes to reflect the previous year's local authority capital overspending and we were therefore simply spared the formula consequences of those reductions. The situation this Survey is complicated by the fact that no reductions are being imposed in respect of last year's local authority capital overspending in England. This might arguably be of little concern to me if it were not for the fact that the combination of the absence of penalties for past overspending and a capital control system which, for this year at least, continues to generate inevitable overspending, leads colleagues responsible for relevant programmes in England to accept lower figures in the Survey than they would otherwise do. This factor has been quite explicit in your discussions in the current Survey and has a direct and obvious deleterious effect on the territorial blocks.

The arrangements I propose for the present Survey and future Surveys is that my block should be excused formula reductions up to the extent of the formula equivalent of local authority capital overspending in the preceding year. This seems to me to be as close as it is possible to get to the arrangement which operated last year.

Since this matter clearly bears upon the continuing discussion by (E(A) of capital expenditure control south of the border, I am copying this letter to the Prime Minister and members of E(A).

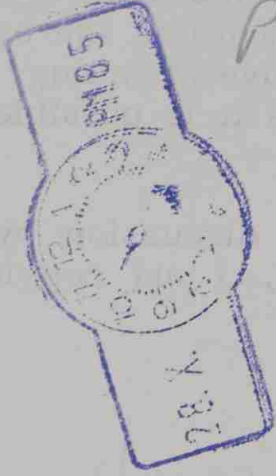
Yours sincerely
Andy Rinning

ANDY RINNING
Private Secretary

Approved by the Secretary of State and
signed in his absence

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PUBLIC EXPENDITURES

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