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*From The Secretary of State for Wales*

The Rt Hon Nicholas Edwards MP

4<sup>th</sup> November 1985

R N B P M

Dear Chief Secretary,

**"TERRITORIAL" IMPLICATIONS OF LOCAL AUTHORITY CAPITAL OVERSPENDING IN ENGLAND**

I am most concerned to hear from my officials about a problem that has arisen over arrangements for taking account of local authority capital overspend in England in setting the level of capital provision for Wales. The problem, and our suggested solution, was clearly set out in a letter from Mr C L Jones to Mr Alistair Pirie of 30 September 1985. My clear understanding is that any expenditure excess in England would be taken into account in setting the aggregate level of capital provision for future years for Wales.

I have based my entire strategy for managing local authority capital expenditure in recent years on this vital assumption, which has been consistently recognised by colleagues.

The measures I introduced to control capital expenditure in 1984/85 were very successful in reducing overspending from an initial forecast of around £90 million to £16 million (5 per cent of net capital provision). In England the final overspend for 1984/85 is £900 million (over 35 per cent). Normally the overspend in England would have led to a commensurate reduction in provision for 1986/87. We have, however, decided to "write it off" using resources from the Contingency Reserve. It would therefore be consistent with the understanding set out in your predecessor's Private Secretary's letter in response to my private secretary's letter of 29 November for provision for Wales for 1986/87 to reflect this decision.

This issue clearly raises an important question of equity. My local authority associations have not been slow to point out that the use of the Contingency Reserve to "write off" overspending in England materially

/affected each country's ...

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affected each country's share of the total resources earmarked for local authority capital investment in 1984/85. The same applies, of course, to the position in the present year. If no allowance was made for the additional endorsed spending in England the share for Wales of local authority capital investment would, over a period of years, and contrary to our intentions, be lower than would otherwise have been the case. Whatever the political exigencies in England such an inequitable outcome for Wales would be impossible for me to defend.

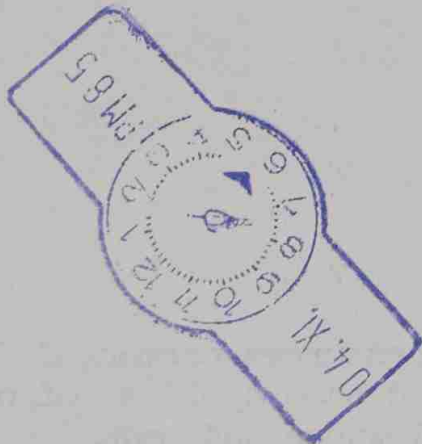
On the basis of my calculations the additional provision for Wales in 1986/87 amounts to £38 million, and I hope you will agree that this adjustment should now be made.

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

*Yours faithfully*  
*R. C. Williams*

Approved by the Secretary of State  
and signed in his absence

exam 101: publicity



*[Faint, illegible handwritten text]*