



cc BG

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Edwards MP  
 Secretary of State for Wales  
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NBH

6 November 1985

Dee Nil,

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

Thank you for your letter of 4 November. George Younger also wrote to me on this subject on 28 October.

with original in file

The proposals you have both made cause me great difficulty. In your different ways you are proposing that you should benefit from formula consequentials of English overspending in a previous year. The formula arrangements are rightly based on provision, not on outturn, and it would be wrong to base consequentials on overspending which is contrary to our plans and intentions. It was one thing for my predecessor to accept that, when a specific penalty is applied to the English cash limit, as in 1985-86, other territories should be exempted from the formula consequentials of that penalty. It is quite another to claim formula consequentials of overspending itself in the form of exemption from other survey reductions, as George proposes, and even more in the form of formula increases, as you propose.

That amounts to arguing that Scotland and Wales must benefit from unintended overspending in England, and thus increase its unacceptable cost still further. Whatever our intentions about relative shares of provision for Scotland and Wales, I cannot accept that they should be determined by levels of spending in England which exceed what we intend and provide for.

George suggests that discussions in the current survey are being conducted in a manner which leads colleagues to accept lower figures for provision in England on the assumption that overspending will continue. This is not the case, as you will know. My position throughout has been based on the need to reach decisions on both provision

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and allocations for English programmes which are designed to deliver spending in line with provision, without overspending. This in itself should help you and George to present the plans for Scotland and Wales.

There will be consequential for Scotland and Wales from decisions on the relevant English local authority capital programmes for the Survey period. In part these reflect the taut control system we plan for England. In that way, Scotland and Wales will benefit directly from the steps being taken to deal with English overspending. I can also agree that, as in England, the normal cash limit penalty should not be required in Wales in 1986-87 in respect of £16 million overspending in 1984-85. And provision for local authority capital spending in Wales will get the further benefit of the £11 million transferred from provision for current expenditure. Taking all these factors together, I think that the position on local authority capital expenditure in Wales could be presented positively, without the difficulties you fear.

Besides the difficulties of principle, you will know how difficult it would be to accommodate at this stage of the Survey an extra £38 million for Wales in our public expenditure plans. For all these reasons, therefore I am afraid I cannot accept either your proposal or George Younger's.

On a separate point, colleagues have agreed that provision for local authority current expenditure in England in 1987-88 and 1988-89 should be set at the same cash level as in 1986-87, on the explicit basis that decisions for the two later years remain to be taken. Given that decision, it seems essential that provision for Scotland and Wales should be treated in the same way. I recognise that this would mean lower figures, for the purposes of the Autumn Statement and Public Expenditure White Paper, than would have resulted from the normal operation of the formula. I can therefore give you a firm assurance that the relevant amounts will be added back to the baseline for Scottish and Welsh local authority current expenditure before the start of next year's RSG discussions, so that those discussions would start from figures reflecting the operation of the formula. I should have no objection if, in Wales, you wished to use some of the relevant amount for capital rather than current spending.

I am sending copies of this letter to the Prime Minister, George Younger, other members of E(A) and to Sir Robert Armstrong.



Yours ever,  
JL

JOHN MACGREGOR

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