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The Rt Hon Nicholas Edwards MP

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From The Secretary of State for Wales

7th November 1985

Den - JH

R8

"TERRITORIAL" IMPLICATIONS OF LOCAL AUTHORITY OVERSPENDING IN ENGLAND

I am responding to your letter of 6 November in reply to mine of 4 November (about capital) and 5 November (about current). We subsequently discussed the matter last night.

I note that you see difficulties of principle in offering any compensation to a territory which observes our spending plans when England does not. In answer to that I have to make two points. First of all my Private Secretary's letter of 29 November 1984 made it clear beyond doubt that I only agreed to what was then being proposed on the understanding that Wales would receive such compensation. If your predecessor had been unable to accept this condition the proposals should not have been implemented without collective discussion of the principle. Instead the principle involved was not disputed by your predecessor: his Private Secretary's reply of 3 December 1984 simply said that such an eventuality would not arise. I note you are saying the same thing now in reply to George Younger about the coming year. Secondly, the greater success we have achieved in Wales in getting local authorities near to our spending plans has led Cabinet colleagues to reaffirm, on a number of occasions, that virtue must be rewarded. If it is not, the lesson from the experience will be to overspend. That would destroy the patient work of this Administration in Wales.

That being said, I understand all too well the particular problem you face in acceding to my request for an additional £38 million on this occasion. In present circumstances, therefore, I reluctantly accept that there should be no addition to my local authority capital baseline as a direct consequential of the 1984/85 local authority capital overspend in England. As you say I shall have some small consequential increase from the PES

/decisions in respect ...

The Rt Hon John McGregor OBE MP
Chief Secretary
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decisions in respect of England for 1986/87: and my allocation total will be enlarged by using the same 83 per cent assumption about spending that is being applied in England (though Welsh statistics indicate that a more accurate figure for Wales would be 80 per cent). These factors may add up to a positive presentation as you suggest. It remains to be seen whether local authorities will see through that.

Turning to current expenditure, I am sorry that you do not recognise the particular difficulties this presents for me in 1987/88, which I explained in my letter of 5 November. Anyone who looks at the last White Paper and compares it with our new plans will see the Welsh baseline cut by £25 million whilst the English one is increased. Once again the lesson to which I referred above will be evident if nothing is done to meet the point. As a very minimum we agreed in our conversation last night that the treatment of the figures would have to be explained. For that purpose my officials have discussed with yours a possible form of words. I understand that agreement has been reached that the general GB position should be explained in the Autumn Statement on the following lines:

No decision has been taken on provision for 1987/88 and 1988/89. Meanwhile the figures for those years shown in Table X and included in departmental totals in Table Y repeat those for 1986/87. They will be reconsidered in the 1986 survey in the light of local authorities' budgets for 1986/87 and other factors. Account has been taken of this in setting the level of the Reserve.

This is satisfactory as far as it goes, but will need some expansion to satisfy Welsh local authorities. For this purpose your officials have agreed that this explanation may be amplified in the Public Expenditure White Paper by a statement along the lines:

The Government remains committed to its pledge to Welsh local authorities that if their spending remains near target, as it is at present, the figures for the later years will maintain the 1979/80 level in cost terms.

Any statement I make to Welsh local authorities, or more generally at the time of the Autumn Statement, will reflect the sense of these two texts.

On that basis I reluctantly accept that the 1986/87 figure of £1,368 million for Welsh local authority current expenditure should be repeated for each of the subsequent years. This is on the firm agreement between us that after the publication of the Public Expenditure White Paper without further ado £43 million will be added to the £1,368 million to form a baseline of £1,411 million in respect of 1987/88 and £45 million will be added to form a baseline of £1,413 million for 1988/89 as a starting point for the 1986 survey, and that I shall receive a full formula consequential to any addition to the English local authority current baseline hereafter agreed for any reason, the distribution of that consequential between current and capital spending to be at my discretion.

/To avoid any ...



To avoid any possible future misunderstanding I would be glad if you could confirm the above agreement in writing.

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

J. C.
Abel

Public Econ Pol.
Expenditure