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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Edwards MP  
 Secretary of State for Wales  
 Welsh Office  
 Gwydyr House  
 Whitehall  
 London  
 SW1A 2ER

*NBPN.*

21 November 1985

*Dear Nicholas,*

**LOCAL AUTHORITY CURRENT AND CAPITAL EXPENDITURE:  
 SCOTLAND AND WALES**

Thank you for your letter of 7 November. Tom King also wrote to me on the same date and I have now seen George Younger's letter of 15 November.

*will request if req'd.*

I am grateful to you and George Younger for your understanding of my difficulties with your requests for compensation for English overspending on local authority capital; and for your acceptance that there should be no change to baselines as a direct result of English local authority capital overspending in 1984-85. I hope that Tom King will now also accept that conclusion for his block. I agree that allocations in Wales can be set on the assumption that local authorities will use 83 per cent of the total spending power available to them, as in England.

I am sorry that there should have been a misunderstanding about what had been agreed in the past. To ensure that there is no misunderstanding in future, I should perhaps repeat what I said in my letter of 6 November: that I do not think it would be right to base provision for Wales and Scotland on levels of spending in England which exceed what we intend and provide for. The right approach cannot be to validate English overspending throughout the UK, but rather to get it under control. I have consistently aimed at that objective in my Survey discussions. While we cannot be certain about the outturn result, I believe that our decisions are consistent with my objective.

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On current expenditure, I confirm that I was generally content with the wording you proposed for use in the Public Expenditure White Paper and at the time of the Autumn Statement. I note George Younger's concern that discussions with Scottish local authorities will be more difficult because they will not be based on figures based on any claim to realism. But you and he (like colleagues in English spending departments) are free to side-step that difficulty by making it clear that no decisions have yet been taken for 1987-88 and 1988-89.

As regards the assurance I have already given you and George Younger, I confirm that the sums required to bring the Welsh and Scottish baselines for local authority current expenditure in 1987-88 and 1988-89 up to the level they would have reached under the normal operation of the formula in the 1985 Survey will be added after publication of the Public Expenditure White Paper to provide the starting point for the 1986 Survey. The exact figures can be agreed between my officials and yours (and George Younger's) but will be roughly £43 million and £45 million in Wales and £5 million and £14 million for Scotland.

As regards any further additions to the English local authority current baseline, I agree that Wales and Scotland should receive full formula consequentials of any addition which is allocated to services and GREs. However, if the 1986 English RSG settlement throws up an arrangement which is not fully covered by that, we may need to consider the question of consequentials at the time. I had already said that I would be content for you to use some of the £43 million and £45 million additions for Wales for capital rather than current, and I have no objection in principle to your doing the same for any further formula consequentials. But the figures will need to be discussed and agreed with the Treasury at the relevant time.

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

*Yours ever,*  
*JM*

JOHN MacGREGOR

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