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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
 Secretary of State for Wales
 Welsh Office
 Gwydyr House
 Whitehall
 London
 SW1A 2ER

7 October 1988

Dear Secretary of State

1988 PUBLIC EXPENDITURE SURVEY : WALES

*not copied
to NPO*

I agreed at our meeting on 4 October, that I would write to you setting out the offer I made to meet your concerns about the impact on the Welsh block in 1989-90 of the substantial increase in local authority receipts over baseline now forecast for England.

My offer to you was that I would guarantee that the net increase in your baseline for block consequentials in 1989-90 will be no less than the net addition to baseline in 1988-89 you got last year (£53.6million) uprated for inflation i.e about £56 million. In addition, to meet your concerns about local authority capital, I confirmed I was content for our officials to explore an alternative method for assessing the room for capital allocations consistent with the baseline. I understand that while this would not add to provision, it could yield some £20-£24 million extra capital allocations and hence a genuine addition to the spending power of Welsh local authorities.

Since we met I have been reflecting further on the arguments you advanced in respect of right to buy receipts. As a result I am now prepared to make an increased offer which recognises that Welsh authorities efforts in at least matching in recent years the proportionate rate of sales of council houses in England should not be penalised by their understandable inability to match English average selling prices.

I am therefore, prepared in addition to the guarantee I proposed, to set aside in respect of 1989-90 the normal (negative) consequentials which would flow from the increase in right to buy receipts in England. That should be worth some £70 million to you on top of the consequentials you will receive on the rest of your block. This should give an outcome in terms of overall block

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consequentials substantially higher than you had last year. (So while the guarantee in paragraph 2 still stands, I think it is very unlikely to be needed).

As many of the settlements which produce consequentials for your block have not yet been concluded, I accept that it is difficult for you to gauge the full value of this offer. I think it would be helpful if our officials were to discuss the likely overall value of my offer, in the light of which we could speak further if you felt that that was necessary.

I believe that this amounts to a very fair and defensible offer. I have gone a very long way indeed to recognise the concerns you expressed about the impact of higher receipts on the Welsh block. This is particularly so given my misgivings about a surge in capital spending from local authorities' own resources next year.

On Regional Development Grants, I am grateful for your offer to absorb within your existing Estimates provision the cost in 1988-89 of ending the 2 month waiting period. On this basis I believe it will now be possible for the waiting period to be removed in England, Scotland and Wales. You also offered a revised bid for RDG of £21/16/6 million (allowing for the ending of the waiting period). Although this is still a substantial increase, I am prepared to agree to it as part of an overall settlement. On Regional Selective Assistance I have considered carefully the points you put to me at our meeting and more recently in your letter. But I remain unconvinced that there are sufficient grounds now for increasing the provision in 1991-92. [As the recent experience on RDG shows, forecasting the translation from investment intentions/application to expenditure is very difficult]. I suggest we revisit this issue in the 1989 Survey when the position is likely to be much clearer. I am pleased that you are able to accept the principle of including RSA expenditure on a cash limited Vote. I would hope that you would not make your acceptance subject to this bid, given my willingness to look at provision next year.

On the Welsh Development Agency, I cannot accept your bid in full. In particular, I am anxious that there should be no extension of Property Development Grant until the scheme has been evaluated. However, given the importance you attached to land reclamation, and the perspective you outlined I am willing to agree to this part of your bid. In addition, in order to help you to capitalise on the reclamation work, I am willing to agree to half the bid for environmental improvements and urban renewal. The overall increase in WDA resources would then be £9.6/ 9.4/ 9.1 million but in recognition of your other remaining small non-block bids I am willing to round this up to £10/10/10 million. I am clear however that I could go no further than this and will want to look very closely in the next Survey at the value for money being achieved with the increased WDA resources.

I am grateful for your withdrawal of the Non-Block VAT bid. On the remaining small non-block bids for Miscellaneous Industrial Support Services Careers Strengthening Scheme and DBRW Housing

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Subsidy, I propose, as I indicated above, to round up my offer on WDA; I would then ask you to absorb the minor additions within the resources available to you.

Finally I confirm I accepted your bids for ERDF grants, housing subsidies, and block VAT (although on the last our officials will need to confirm the precise figures).

Yours sincerely
John Major

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(approved by the Chief Secretary
and signed in his absence)

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