



10 DOWNING STREET

Prime Minister 2

The Treasury had
expected 600 overspend,
not 750. Some other things
(eg Cable & Wireless) have
gone better than expected, so
the Treasury are not yet
saying the Reserve will be
burst.

I am more disturbed about
the second paragraph; the
83 per cent assumption was
however part of the deal done to
stop Mr Baker going to Cabinet
over housing expenditure.

JHS
17/12

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London
 SW1P 3EB

16th
 December 1985

Dear Kenneth,

LOCAL AUTHORITY CAPITAL OVERSPEND 1985-86

I was very disturbed to learn that we face an increased overspend of £750 million on your cash limit for LA capital in England. Such an increase is most unwelcome as an extra pressure on the Reserve. Our offices discussed and agreed the terms in which it should be announced in order to avoid exciting speculation that the Reserve will be broken. As you know, the position is very tight and it is with great reluctance that I have to accept there is little we can do to affect the position in year.

I am particularly concerned on this occasion because, at your insistence, only a short time ago in the PES round we agreed that allocations could be set assuming 83 per cent use of total spending power because, so we were informed by your officials, authorities were only using 81 per cent this year. Your new forecast, so soon after, now implies that authorities will be using 87 per cent of their total spending power. I shall have this very much in mind when we come to consider 1987-88.

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

Yours ever,

JOHN MacGREGOR

