



It seems that under the new system of LA capital controls the GLC will be able to use the capital receipts from 1981/82.

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

Mr Fowler and Mr King are entirely content.
Are you content?

PRIME MINISTER

Yes if Horace
Cutler is content

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LOCAL AUTHORITY CAPITAL RECEIPTS - TRANSPORT

Following our brief discussion on 29th February, I undertook to consider further the treatment of local authority capital receipts, in the particular context of Sir Horace Cutler's proposal to finance major transport projects from accumulated receipts.

2. I have now discussed this with Norman Fowler and Tom King.
3. The new system of capital controls will come into effect in 1981-82. For 1980-81, the position remains the same as in previous years. The level of GLC capital spending for each service has been settled between Departments and the GLC in line with the planned public expenditure provision for that service. There is therefore no room to accommodate increased spending by the GLC from the use of accumulated capital receipts in that year. So that if in 1980-81 the GLC wish to finance new transport projects from accumulated capital receipts, it is for Norman Fowler to decide:-
 - (a) whether the schemes are satisfactory from the point of view of transport policy; and
 - (b) whether such spending can be accommodated within the total planned public expenditure provision for transport.
4. When the new system of local authority capital controls comes into effect in 1981-82, the following changes will be made.



5. First, although capital allocations will be calculated in service terms, individual authorities will be free to spend their total allocations as they wish between services. Switching will not need Whitehall approval.
6. In consequence, service Departments will no longer be responsible for separate capital cash limits. Instead, the Department of the Environment will be responsible for one, overall cash limit, covering total local authority capital spending in England.
7. Secondly, all local authorities, including the GLC, will be free to finance projects from accumulated capital receipts over and above their annual allocations. This will give the GLC more freedom than under the current Money Bill arrangements.
8. Thirdly, specific Government approval for individual projects will be needed only where these are considered by the responsible Minister to be of national or regional importance. In considering such projects, the Minister would need to take a view on their economic justification.
9. The overall cash limit on local authority capital expenditure will be net of expected capital receipts in each year and the Government will have to decide what figure to assume for these receipts. The DOE will be responsible for controlling actual net spending in the year against the cash limit.
10. In theory, it would be possible for expenditure of accumulated past receipts by authorities to result in an excess over the cash limit. In practice, the total of these receipts spent in any one year will be relatively small and may be offset by underspending.
11. If there is over-spending, the corrective action required will depend on circumstances at the time. But I accept Norman Fowler's point that, if it proves necessary to restrict expenditure
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allocations, local authorities' freedom to vire between services means that any such decision should apply to all services. It should also apply to all authorities since it would not be fair to load all the reduction on to the particular authorities which were spending accumulated receipts.

12. On this basis, I conclude that the new controls should not involve special difficulties in relation to the GLC's current proposals: those of national or regional importance will be subject to the Minister's approval on transport policy grounds. And thereby hangs a tale - which it is for Norman Fowler to tell. If you agree he can explain the position to Sir Horace Cutler.

13. I am sending copies of this minute to Norman Fowler and Tom King, and to members of MISC 28, Mark Carlisle, Patrick Jenkin, and Sir Robert Armstrong.

Mr Fowler is seeing Horace Cutler on Monday, and report back to you.

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(G.H.)

26 March 1980

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