

PRIME MINISTER

UNDERSPENDING BY LOCAL AUTHORITIES

1. Local authorities are underspending on their capital investment programmes. And it is entirely fair for us to point out this fact to our critics and to urge the local authorities concerned to "increase worthwhile capital investment in the present financial year", as the Department of the Environment suggests.

At the same time, our critics might reasonably point out that we have had 3½ years and two local government bills in which to get this question right.

Yet here we are, still suffering from the problem which has bedevilled almost every post-war British Government: when asked to cut, local authorities always tend to cut capital at the expense of current spending.

If we wish to give the impression that we are getting on top of the problem, we ought surely to go beyond an appeal to the local authority associations.

2. At present, the cycle of local authority capital spending is the precise opposite of what is desirable. They tend to underspend in a recession and so deepen the slump and add to unemployment, particularly in the building industry. In a boom they tend to overspend often on frivolous projects or superfluous capacity, and so overheat the labour market just when it needs cooling.

Government does have the power to hold back cash and withhold approval from individual projects. But governments do not have "push-on powers", that is, powers to stimulate capital spending without at the same time stimulating current spending on more staff and higher wages. Extra allocations for capital spending all too often leak away into current spending via the debt servicing process.

3. Why should not government approval of capital projects be linked to their timing? It would surely be possible to link project approval to the approval of each year's total capital spending

/programmes



programmes so that both the total and the composition of each year's programme had to be agreed as a whole by government and would accordingly form a prior and unalterable charge on the local authority's budget for that year, before current spending came to be discussed at all.

The objection that powers of this sort would interfere with the independence of local authorities is surely spurious. We would not be forcing them to carry out any project which they had not themselves conceived and submitted. Authorisation (which has to be given anyway) would merely be conditional upon the observance of a timetable. Local authorities would do only those things that they wished to do, but they would do those things according to our timetable, in the national interest of reducing both inflation and unemployment.

4. I am sure that there would be difficulties, but I am equally sure that it is humiliating that government (which normally finds no difficulty in taking powers) should be driven to say: "We'd like local authorities to spend more on worthwhile capital projects, but we do not possess the power to force them and we don't see how to take that power". There is increasing discontent among our supporters that while the rates go on rising, our towns go on getting shabbier and unemployment goes on rising. Only government can resolve this embarrassing contradiction.

5. I suggest therefore:

(i) that your letter to the leaders of local authority associations should indicate that unless allocations are fully spent in future, the Government intends to take powers to ensure that they are, in the interests of securing a programme of capital spending which accords with the needs of the working population;

(ii) that the DoE and the Treasury should start work on a scheme to carry this out;

/(iii) that our manifesto



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(iii) that our manifesto should include a commitment  
"to ensure that the rebuilding of Britain's  
streets and cities should be the first charge  
upon local authority expenditure, and not the  
last".

*fm*

FERDINAND MOUNT

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MR. MOUNT

The Prime Minister would be grateful if you would pass on to the appropriate quarter your suggestion in paragraph 5(iii) of your minute to her of 27 October.

MUS

4 November 1982



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10 DOWNING STREET

From the Private Secretary

4 November 1982

cc DES  
cc Home Office  
INDUSTRY  
WELSH OFFICE

16/12.

LOCAL AUTHORITY CAPITAL UNDER-SPENDING

I attach a copy of a note by the Policy Unit here on under-spending by local authorities.

The Prime Minister would be grateful for your Secretary of State's comments, and for those of the Chief Secretary, on the suggestion that Government approval of capital projects should be time-limited so as to provide a mechanism whereby the Government could speed up capital expenditure, and ensure that capital expenditure would form a prior unalterable charge on local authorities' budgets before current spending came to be discussed at all.

I am sending a copy of this letter and enclosure to John Gieve (Chief Secretary's Office, H.M. Treasury).

M. C. SCHOLAR

D. A. Edmonds, Esq.,  
Department of the Environment.

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10 DOWNING STREET

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Prime Minister

You saw Ferdy's note  
on underspending (attached)

Shall I ask DoE / Treasury  
to examine x? ✓ ~~Am~~

And Ferdy to feed Y  
into the appropriate quarter?

Yes  
ml MCS 3/11