

CG Local Government:
Relations: Pt 14

Original Prime Minister
Meeting with Group of Eight
August 1982



file

DOE
CS, HMT
PRESS

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

Dear *Councillor Horley.*

I am concerned to learn that after underspending on capital substantially in 1981/82 local authorities show every sign of doing the same in 1982/83 because they are making little use of their capital receipts. As local authorities have some £1½ billion of capital receipts, the scope for additional investment is very considerable indeed.

I recently met the Group of Eight, the body which represents all sides and parts of the construction industry, and they drew particular attention to the way in which local authority (and nationalised industry) capital investment is falling below the Government's public expenditure provision.

The Government maintains its firm policy of restraint of public expenditure as a whole. Within that, there is scope for some shift from current to capital spending. In the Government's view this is highly desirable. That is why local authorities have been enabled, and indeed encouraged, to increase their capital expenditure by using capital receipts to supplement their capital allocations.

I recognise that authorities are still developing their expertise in operating the capital allocation system and that there are difficulties in planning forward programmes when it is not possible for us to give firm indications of future levels of provision. Long lead times and the need to provide for the revenue consequences of higher capital spending are also significant factors. The fact remains, however, that some authorities made full use of both their allocations and their receipts last year and there is clearly no insuperable difficulty to others doing likewise. I feel sure you will agree that much investment is

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needed to plan for future economic recovery, and that the present time, when the construction industry has spare capacity is the moment to be making provision for those future needs.

Michael Heseltine has just announced that in view of this year's underspend extra allocations will be available to authorities which can achieve local additional investment before the end of the year. We believe that there is much which can be done if local authorities, the construction industry and central government work together to minimise delays.

I would ask you, therefore, to urge your members to do all they can to respond to the Government's offer and increase worthwhile investment in the present financial year.

Yours sincerely
Raymond Hulse

cc local Government
Relations; PMH

Original on Prime Minister
Mtg with group of eight 8/12



file

CS, HM
Press

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

Dear Council, Mr Cullum

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Yours sincerely
Raymond Stiller

cc Local Government
Relations: P114

Original: Prime Minister

Group of Eight: 8/82

Myself



file

JR
CCS/HR
DOE
PRESS

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

Dear Councillor Hamplin,

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/Michael Heseltine

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I would ask you, therefore, to urge your members to do all they can to respond to the Government's offer and increase worthwhile investment in the present financial year.

Yours sincerely
Raymond Baxter

cc Local Government
Relations: Pt 14

~~HTU~~ THU

Original in: Prime Minister's
Meeting with Group of Eight 8/82



file

CS, HTU
PDS

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

Dear Sir Trade

I am concerned to learn that after underspending on capital substantially in 1981/82 local authorities show every sign of doing the same in 1982/83 because they are making little use of their capital receipts. As local authorities have some £1½ billion of capital receipts, the scope for additional investment is very considerable indeed.

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I would ask you, therefore, to urge your members to do all they can to respond to the Government's offer and increase worthwhile investment in the present financial year.

Yours sincerely
Margaret Thatcher

Councillor Sir Jack Smart, C.B.E., J.P.

cc Local Government
Relations: Pt 14

Originator Prime Minister
Mtg with Group of Eight 8/82



file
cc CS, AMT
DOE
PWS

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

Dear Councillor Sewel,

I recently met the Group of Eight, the body which represents all sides and parts of the construction industry. They expressed concern about the way in which local authority expenditure is falling below the Government's public expenditure provision. I told the Group that I would write to local authority associations, setting out the Government's views.

I fully understand that, with the strong emphasis we have placed on reducing current expenditure, some authorities may tend to be particularly cautious in planning their capital spending because of its current expenditure implications. Stringent control of current expenditure is of course essential; nevertheless, as you will appreciate, we have made every effort at a time of great difficulty to allocate as much as possible for capital programmes. It is therefore a great pity if so much of this goes unspent because of undershooting of targets; in 1981-82 there was a substantial underspend on the capital allocations made to local authorities in Scotland. The construction industry is obviously hit hard by this at a time when it is very short of work. I am therefore writing to express the hope that Scottish local authorities will do all they can to avoid underspending in 1982-83 and in later years.

I do understand that local authorities try hard to spend their annual allocations but can often be held back by circumstances beyond their control like last winter's severe weather. I am writing to reassure you however that we in Government will do what we can to help Scottish local authorities to utilise efficiently

/ all the

all the resources available to them. I know that the Secretary of State has in mind to issue whatever supplementary allocations may be available as early as possible and for next year to arrange for authorities to receive early intimation of their final allocations.

I very much hope that I may count on the assistance of the Convention in encouraging authorities to make full use of the resources made available to them.

Yours sincerely
Margaret Thatcher

Councillor John Sewel



10 DOWNING STREET

3

Prime Minister

Underspending on capital

I attach 7 letters to sign

urging local authorities and nationalised
industries to spend their capital
allocations.

Please see, too, Ferdy's note (attached)

Shall I ask DOE / Treasury to
examine X? and Ferdy to feed Y
into the appropriate quarter?

MUS 27/10

From: Mr J R Horrell CBE TD DL, Chairman of the Executive Council

ASSOCIATION OF COUNTY COUNCILS

EATON HOUSE, 66A, EATON SQUARE, LONDON, SW1W 9BH

MCS
ellen

The Right Hon Margaret Thatcher MP
The Prime Minister
10 Downing Street
LONDON
SW1

Original Prime Minister
Meeting with Gray 8

4 November 1982

Angela
1982

Dear Prime Minister

Thank you for your letter of 2 November.

Immediately after I met the Secretary of State for the Environment, the Association alerted all our members to the Government's offer and I am sure that our members will do all they can to respond and increase worthwhile investment in the present financial year. My colleagues and I share the views of the Government on the need for capital investment, not only to help the construction industry and the general employment situation, but also to maintain the fabric of our infrastructure and the needs of the services which local government provides.

I know that you understand the limited possibilities available in the present financial year and that the use of capital receipts is not the only factor. You recognise the difficulties in planning forward programmes when it is not possible for the Government to give firm indications of future levels of provision. Another factor is the requirement that additional projects for the present year must be such that any expenditure falling in 1983/84 or thereafter must be borne within the normal resources for those years and the revenue consequences must be borne without any amendment to GREs or targets.

Some of my colleagues are due to meet Michael Heseltine next week and I know they hope to explore with him positive proposals to enable local government to respond to the Government's objective of additional investment which we all share.

Yours Sincerely
John Horrell

From: Altyd Harrington, J.P.
Deputy Leader of the Council
Greater London Council

MEMBERS' LOBBY
THE COUNTY HALL
LONDON SE1 7PB

The Rt. Hon Margaret Thatcher
The Prime Minister
10, Downing Street
London
S.W.1.

Original on Prime
Minister's desk

5/1 with copy of
enclt Ag 1982

9th. November 1982

Dear Prime Minister

You wrote to me personally to encourage the Council to do what it can to increase its expenditure in the current financial year on capital investment projects, particularly on those of benefit to the construction industry and to employment in that industry.

Let me reply, at once, that the Council is doing, and will do, all it can to expend its authorised capital programmes this year. But there is precious little more it can do between the 3rd November 1982 and 31st March 1983 to increase capital investment to benefit the construction and other industries and their workers in the absence of increased commitment in 1983/4 and beyond.

The reasons why my Council, and many others, find themselves forced, in practice, by Government processes to 'underspend' on capital are so well known in its Central Departments and have been the subject of so many protests that I am frankly puzzled that the letter you sent to me should have been put before you for signature.

There is only one action which can now have any measurable effect in capital expenditure/investment terms in the few remaining weeks of this financial year and give substance to your intent. This is Government's agreement now to the increased level of capital expenditure/investment in 1983/4 which the Council has represented to the Department of the Environment.

Yours faithfully
Altyd Harrington



ASSOCIATION OF DISTRICT COUNCILS

From the Chairman:

COUNCILLOR IAN S. McCALLUM

*Original on Prime Minister
Meeting with Group of
8 Aug 82*

8 November 1982

Dear Prime Minister,

Thank you for your letter dated 2 November 1982.

I welcome the Government's initiative in encouraging local authorities to step up capital expenditure in the current year and I feel sure that many authorities will make the effort to respond positively. You may rest assured that I will do all I can to encourage our authorities to take up the challenge.

There are, however, one or two areas of difficulty which, if overcome, could help local authorities to make an even better response to your call. I have said publicly that the Government's initiative will provide an opportunity for some authorities to bring forward schemes presently scheduled for commencement in the next financial year. To be realistic, it will be difficult for any local authority to embark on major expenditure involving new construction without some much firmer assurances about the carry-over from this year. Personally, I am convinced that there are many substantial construction schemes which could get underway very quickly if the Government would respond with some help on the carry-over commitment.

A second area of deep concern to local authorities is the Government's proposal to restrict the use of capital receipts to supplement allocations next year to 50% of the total in hand. My soundings amongst district councils indicate that this proposal will have a very serious affect on the plans of many local authorities intending to embark on capital expenditure during the next twelve months, but you will understand that the present capital expenditure controls and the selling of council houses under the Housing Act 1980 provisions have only been in operation for a relatively short period of time. It is now that local authorities are feeling the benefits of the power to accumulate and use capital receipts and I know it is from here on that many councils were planning to finance substantial construction programmes by this means. A 50% limit will jeopardise capital programmes which have been drawn up to span the next two or three financial years. I hope that the Government will look again at this proposal, or at least ensure that local authorities in the position which I have described are awarded compensating additional capital allocations to enable them to proceed.

.../....

The third point I would invite you to consider is the possibility of the Government helping local authorities with commitments in capital expenditure which extend beyond one financial year. There are very few capital projects of any substance which do not span more than one year and most forward looking local authorities plan their capital programmes over a three or five year period. I believe that experience of the new capital expenditure control system highlights the difficulty of planning capital programmes on the basis of annual allocations. I would ask you to invite the Secretary of State for the Environment to look at this particular problem again.

May I say in conclusion that this Association and the local authorities it represents welcome any initiative by the Government to stimulate capital expenditure, but those authorities have to operate within the Government's statutory controls and within the constraints of revenue budgets for which substantial capital expenditure inevitably has implications. If you feel that it would be helpful to discuss the issues involved I shall be happy to respond.

Your sincerely

Jan S. McAllen

The Rt. Hon. Margaret Thatcher, MP.,
Prime Minister,
10 Downing Street,
London,
S.W.1.

AA27/2/ISM/PO



Association of Metropolitan Authorities
36 Old Queen Street Westminster London SW1H 9JE Telephone 01-222 8100

From the Chairman Sir Jack Smart CBE

5 November 1982

McLean

*Original on Prime Minister
meeting with Geoffrey
Eight ~~11~~ August
1982*

The Rt Hon Margaret Thatcher
The Prime Minister
10 Downing Street
London SW1

Dear Prime Minister

Thank you for your letter of 2 November 1982. I share your concern at the underspending on local authority capital expenditure; the AMA has been saying for some time that we need more public investment.

Your letter appears to begin to appreciate some of the problems faced by local authorities in achieving our common aim but I feel it does not go far enough. First, you say that local authorities "are still developing their expertise in operating the capital allocation system and that there are difficulties in planning forward programmes when it is not possible for us to give firm indications of future levels of provision". This is the nub. The Local Government, Planning and Land Act, 1980 changed the system of controlling capital expenditure. Before the Act our borrowing to finance projects was strictly controlled. Local government accepted this for our borrowing contributes to the PSBR. But when a Government Department gave borrowing approval it related, in most services, to a complete project. That made sense. A local authority could start a project with the reasonable certainty of having the borrowing approval to allow its completion. The present system controls how much local government spends in a year (no matter how it is financed), not a programme of "starts". We have yet to receive any indication of the level of capital allocations for 1983-84. And we were told only two weeks ago of a change in the rules for 1983-84 which could thwart many worthwhile projects. Is it any surprise that local authorities are reluctant to undertake projects, or that they store up capital receipts to iron out expected shortfalls in capital allocations? A good deal of the culpability for present capital underspending rests with the present system of capital controls.

I am also concerned at the implications of our being encouraged to spend only in the remaining five months of the year. It really does the image of government no good at all when local authorities - at the sharp end - attempt to explain to the public that we are trying to stimulate the construction industry, but only until 31 March 1983. Projects can be undertaken between now and then as a worthwhile investment of public funds, but the project must be completed by 31 March 1983 because we cannot guarantee the funds after that date. This is a nonsense.

Thirdly, my colleagues and I on the Consultative Council on Local Government Finance have searched hard for capital investment projects which do not generate increased revenue expenditure. We have asked your Ministers for examples. The truth of the matter is that they are few and far between and tend not to relate to the main areas of local government spending. You cannot expect a major increase in local authority investment if at the same time you penalise and castigate local government for "overspending" on the revenue account.

Finally, Prime Minister, I must put the record straight. In the House of Commons on 3 November 1982 (Column 21) you said that you were urging us to make full use of the sums that you had "allocated" to capital. That is just what local authorities have been doing. What they have not been doing is using their capital receipts to increase these allocations. They are planning to use them in future years but they have not done so yet. Michael Heseltine's plans for the use of capital receipts jeopardise that future use.

I shall, as you have asked, draw your letter to the attention of the Association's member authorities, but unless something is done about the problems I have outlined in this letter the results will be nugatory.

Yours sincerely

Jack Sweet



JR
K5
c-DOE

10 DOWNING STREET

THE PRIME MINISTER

23 November 1982

Dear Councillor Horrell,

Thank you for your letter of 4 November about local authority capital expenditure.

I am grateful to you for taking prompt action to notify your member authorities of the availability of extra allocations. I recognise that there may be some difficulties of the kind which you mention, but I nevertheless believe - as you clearly do - that there is much valuable additional investment which can be achieved, even in the short term.

I am glad that you expect your members to do their best to respond. The initial reaction to Michael Heseltine's offer has been encouraging.

Yours sincerely
Raymond Storer

Councillor J.R. Horrell, CBE, TD, DL.

B



JK MS

DOE

10 DOWNING STREET

THE PRIME MINISTER

23 November 1982

Dear Councillor McCullum

Thank you for your letter of 8 November about local authority capital expenditure.

I am grateful for your promise to help promote additional capital investment this year. I recognise some of the difficulties to which you refer. They are not all capable of easy solutions, but Michael Heseltine will be looking further at the points which you raise. I believe that there is much valuable additional investment which can be achieved, even in the short term.

I am glad that you expect your members to do their best to respond. The initial reaction to Michael Heseltine's offer has been encouraging.

Yours sincerely
Margaret Thatcher

Councillor I.S. McCullum

B



10 DOWNING STREET

THE PRIME MINISTER

23 November 1982

pe MS
DOE

Dear Councillor, Harrington

Thank you for your letter of 9 November about local authority capital expenditure.

I am glad to know that your Council is making efforts to achieve worthwhile capital investment, but sorry that you see so little scope for an accelerated programme this year. I recognise some of the difficulties to which you refer, and we shall be announcing allocations for next year as soon as possible. But I believe that within the constraints of Michael Heseltine's expenditure targets there is still much which authorities can do to promote extra capital investment this year, without creating problems for later years. The encouraging response from many authorities following Michael Heseltine's offer of extra allocations is evidence of this, and I do not share your pessimism about what can be achieved.

Yours sincerely
Margaret Thatcher

Councillor I Harrington, J.P.

5



LOCAL GOV. Me MS
C DVE

10 DOWNING STREET

THE PRIME MINISTER

23 November 1982

Dear Councillor Smart:

Thank you for your letter of 5 November about local authority capital expenditure.

I note what you say about the capital control system. So long as resources for public expenditure are constrained local authorities like other public sector bodies, will face difficult decisions. But I believe that within the constraints of Michael Heseltine's current expenditure targets there is still much that authorities can do to promote extra capital investment this year, without creating problems for later years. Michael Heseltine's offer of extra allocations produced an encouraging response from many authorities.

I am grateful to you for drawing the contents of my earlier letter to the attention of your member authorities. I do not share your pessimism about the outcome.

Yours sincerely
Margaret Thatcher

Councillor Sir Jack Smart, CBE, JP.

B



10 DOWNING STREET

From the Private Secretary

29 November 1982

CAPITAL SPENDING

The Prime Minister is receiving the replies to her recent letters (the second wave of same) to Local Authorities. She does not wish to reply again, but would prefer to allow the correspondence to rest. I attach for your information only copies of their replies.

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

M. C. SCHOLAR

David Edmonds, Esq.,
Department of the Environment

Local Govt

Bre

file Mr. J. Verelst

SM

From: Iltyd Harrington, J.P.
Leader of the Council
Greater London Council

MEMBERS' LOBBY
THE COUNTY HALL
LONDON SE1 7PB

The Rt. Hon Margaret Thatcher
The Prime Minister
10, Downing Street
London
S.W.1.

Prime Minister

(2)

I suggest we allow this
correspondence, too, to rest.

MT

25th November 1982 MGS 26/11

D. H. Harrington

Thank you for your letter of 23 November.

I can only repeat that we shall make additional capital investments as the constraints placed upon us allow and which are practical.

Regretfully but firmly, I have to reject your expression of 'pessimism' of what can be achieved. It is not a question of either lack of will or competence on our part. It is simply a question of realism; a realism which is underlined by the fact that we still await agreement as to a level of capital expenditure which the Secretary of State for the Environment will support for 1983/4.

*Yours truly
Iltyd Harrington*

PCP/20



Association of Metropolitan Authorities
36 Old Queen Street Westminster London SW1H 9JE Telephone 01-930 9861

From the Chairman Sir Jack Smart CBE JP

24 November 1982

The Rt Hon Margaret Thatcher
The Prime Minister
10 Downing Street
London SW1

Prime Minister (2)

I suggest we allow

ms

this correspondence to rest.

Dear Prime Minister

MS 25/11

Thank you for your letter of 23 November 1982.

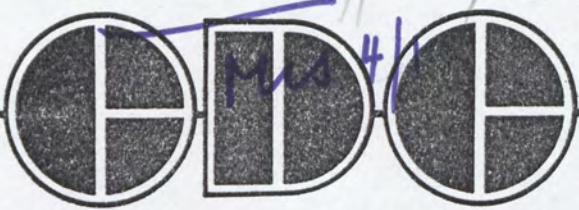
I am heartened by your "noting" our points about the system of capital controls. I know that the building industry has a great deal of sympathy with our views. John Stanley seems also to have noted our points and promised local authorities some indication of 1984-85 spending levels when he makes the announcement for 1983-84 housing capital programmes and I hope that this approach can be extended by your colleagues to other departments' programmes.

Sincerely,

Jack Smart

Prime Minister (2) R/C F?

We will let you have a draft reply.
mes 4/1



James M. Miller,
Chief Executive
and Director of Administration

Cunninghame District Council

Cunninghame House · Irvine KA12 8EE
Telephone (0294) 74166

Please ask for	Our ref.	Your ref.	Date
Mr. Miller			22nd December 1982

The Rt.Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
LONDON.

Dear Prime Minister,

This Council have considered the letter dated 2nd November sent by you to the President of the Convention of Scottish Local Authorities and circulated by him to all local authorities in Scotland.

I am instructed to inform you that this Council have every year since re-organisation fully utilised their allocation of Capital Expenditure and will do so in 1982/83:

I am also instructed to say that this Council applied at the end of October to the Scottish Office for a Supplementary Allocation of Capital Expenditure on Housing Services in 1982/83 but so far have had no reply. The Council feel that this is not consistent with the intention expressed in your letter.

In particular I am instructed to say that the problem for the construction industry in Cunninghame is not that this Council are under-shooting their target but that the Government has reduced the target (for Capital Expenditure on Housing) from £4.922m. in 1978/79 to £2.841m. in 1982/83 - a reduction of 42% in cash terms and 65% in volume terms.

Yours faithfully,

PM, Aug 82, Group of Eight

4 JAN 1983

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