

g/c SV



Prime Minister

10 December 1982

LOCAL AUTHORITY CAPITAL EXPENDITURE

I have been thinking about the note by the Policy Unit circulated by your Private Secretary on 4 November. I have also seen the letter of 29 November from Leon Brittan's office.

I have reservations about much of the analysis of the Policy Unit, and still more about their proposals. In particular, their suggestion that current expenditure could be used as a lever to enforce spending on capital projects would a) require complex legislation; b) involve a more detailed control of current expenditure than has so far been contemplated in any of our discussions in MISC 79; c) mean the re-introduction of detailed control over capital projects; d) require more civil servants; and e) effectively remove all semblance of local government autonomy.

The Unit also fail to recognise our success in reversing the upward trend in current expenditure. By 1981-2 we had already achieved a 3% cut from the peak year of 1979-80. We are keeping up the pressure through the block grant system this year and next.

But I agree with much of what the Unit say. There has of course been a problem of capital underspending in the last two years. Indeed, I am concerned that we may be running into the same problem in 1983-4, when it could be even more embarrassing politically. There is no dispute that we need more capital expenditure to improve the housing stock, the urban fabric and the country's infrastructure.

Capital programmes have been falling since the early 1970s. I attach a graph which illustrates this. We have been seeking to reverse the trend, but capital programmes have had to take their share of the public expenditure reductions which we have made over the last 3 years. It is all the more important, therefore, as you have yourself stressed in the House, that local authorities and other bodies should make good use of those resources that we are able to make available to them.

We have put this message across to local authorities in various ways during recent weeks. But I agree with the Policy Unit that we should also consider whether there are any further steps that we can take.

The new housing project control system does not contribute to the underspend. A major underspend occurred in 1978-9, before the new system was introduced. We have now swept away most of the forms and questions that local authorities previously had to complete for every scheme before approval was given. Now we intervene only where schemes appear excessively expensive or of very poor quality. Authorities are free to proceed with their schemes unless the Department intervenes within 3 weeks of the submission. And in 98.5% of cases in 1981-2, the Department did not intervene at all. I see no need for significant changes here.

There is nothing inherently wrong with the capital control system introduced by the Local Government Planning and Land Act 1980. By substituting control over expenditure for control over borrowing we were able to abolish many of the detailed controls over capital

CONFIDENTIAL

projects, reduce central government manpower, and give local authorities freedom to decide their own priorities. It is generally agreed that the new system is a great improvement over the old one. In my view we should try to work within it.

We have had a major success in encouraging local authorities to sell assets, particularly council houses. This has produced receipts of £1.4bn in 1981-2 and an estimated £1.8bn in 1982-3. The trend is still rising. But

- i. Many local authorities are not used to managing receipts on this scale. Treasurers have been over-cautious, and their plans have not allowed for full use of receipts, but authorities are now learning to make better use of the receipts system.
- ii. Authorities argue that they cannot undertake capital expenditure because the revenue consequences incur grant penalties. They exaggerate. It is true that we have over the last 3 years introduced powerful incentives for local authorities to scrutinise programmes which have manpower and other revenue consequences. But this need not constrain their capital spending. If they achieve our expenditure targets by making real cuts in current expenditure they should have no difficulty in using windfall capital receipts to finance their full quota of capital expenditure.
- iii. Capital spending needs long-term planning. Some authorities have made plans to use their receipts in later years. The more certainty we can give about allocations for later years and on the likely trend in capital receipts, the easier authorities will find it to make full use of their resources.

We can deal with some of these problems within the existing system. Leon has already agreed some helpful changes for next year. These are mentioned in the letter of 29 November. But in my view we have not yet gone far enough. I fear that there may be a continuing tendency to underspend; we should therefore consider further options to correct it.

- i. One possibility is over-allocation to individual authorities. There is always a degree of slippage and shortfall in programmes, and over-allocation would be likely to reduce shortfall overall. It has been done from time to time in the past. For 1983-4 Leon has agreed to over-allocation in the specific case of improvement grants; and there is a special problem about the Other Services block which I describe in sub paragraph (iii) below. For the longer term we ought to consider whether more extensive and systematic over-allocation could be useful.
- ii. There is some evidence that authorities are more ready to use their basic allocations than the total capital expenditure authorisation composed of allocations plus capital receipts. This points to including in the basic allocations some proportion of the estimated receipts for the year. For housing we have always included 50% of receipts in the allocations. For 1983-4 we have decided to bring the Other Services block into line. The effect will be to give authorities larger allocations and thus encourage more spending. Leon Brittan suggests that we could increase to 75% the proportion of housing

receipts incorporated in allocations, as Nick Edwards has done in Wales. However this would raise a problem: it would appear that we were encouraging high spending authorities to take up the resources earned from fulfilling our housing policies (eg by council house sales) by low spending authorities, often our supporters.

iii. By changing to a 50% rule for the Other Services block we have created a problem for those authorities which understand the system and have genuinely stored up receipts to spend on projects in later years. This is the origin of press reports about capital projects which may have to be cancelled because of Government decisions. The problem can best be dealt with by creating a reserve pool from which supplementary allocations can be made to authorities in genuine difficulties. Tom King and I have proposed a pool of £40m. I hope that Leon can agree to this.

iv. Authorities need guidance about the allocations they can expect to receive in later years, so that they can plan ahead. Leon has now agreed that they should be told that they can plan their housing programmes on the assumptions for 1983-4. I hope that Leon and I will shortly agree on a similar arrangement for Other Services.

v. Authorities are already allowed to increase their allocations by up to 10% from carrying forward unused allocations from the previous year or by anticipation of the following year. We should consider increasing this figure to 25%.

vi. We should also consider some year-end flexibility on the national cash limit. Authorities find it difficult to plan capital programmes when they know that the national limit is set on a strict annual basis, with no provision for carrying forward underspends or overspends. I have for some time been pressing in our discussions on public expenditure for a degree of year-end flexibility, but Leon has been reluctant to bring it forward as a general issue for discussion at Cabinet. I think we should now consider it more seriously, as an option for immediate introduction as we move from 1982-3 into 1983-4. It would not in my view be right to pay for additional flexibility by reducing the provision which we have already agreed for next year.

In considering these options we need to bear in mind the prospects for 1983-4. We have agreed the capital programmes, housing allocations have already been issued, and the other allocations will be made shortly. But there is already some evidence that capital receipts may be higher than we assumed during our discussions of public expenditure, because of the still increasing proportion of council house sales financed privately. Authorities have responded well to our call for more spending this year, but since only 5 months of the year remain it is unlikely that more than a proportion of the underspend will be eliminated, and the effects will carry forward into 1983-4. So the chances of further underspend next year are high.

Apart from the options described above, which need the collective agreement of colleagues, I am taking the following action within my own area of responsibility:

CONFIDENTIAL

i. I am considering urgently whether I can improve monitoring and forecasting arrangements, so that any necessary stimulus can be given next year in the spring or summer rather than the autumn. The arrangements will need to be discussed with the local authority associations.

ii. I shall also explore with the local authorities and other bodies the scope for them to do preparatory planning and design work on capital projects which can be ready to go at the first sign of any slack. I shall pay particular attention to the opportunities for worthwhile expenditure by agencies over which we have greater direct influence than local authorities, such as the Housing Corporation and water authorities. I shall ask the managing contractors now established in each of my Regional Offices to take a part in this.

More generally, I think it might be useful if Leon Brittan were to call together those of us with responsibility for major spending programmes, to plan in advance the action required if our early warning mechanisms confirm signs of a further underspend in 1983-4. In particular, we might consider the scope for capital spending on major programmes of repair and maintenance, which would prevent the need for major new capital projects in the future.

Conclusion

My main points can be summarised as follows:

- i. There is nothing inherently wrong with the capital control system.
- ii. Some local authorities still have to learn how to make full use of capital receipts.
- iii. They should find this easier now that 50% of receipts for the Other Services block are to be included in allocations.
- iv. The change to a 50% rule creates a real problem for some authorities. The answer is a reserve pool - I have suggested £40m - for extra allocations.
- v. Local authorities need assurances about the longer term. Leon and I have agreed on this in principle.
- vi. We ought to consider other options, particularly on increase in the figure by which authorities can augment allocations from carry over and anticipation; and end-year flexibility on the national cash limit.
- vii. I am taking steps to improve our monitoring and forecasting arrangements.
- viii. It might be useful if Leon and the Ministers responsible for local government services met to consider how best to avoid underspend in 1983-4.

I am sending copies of this letter to colleagues with a local government interest - Willie Whitelaw, Leon Brittan, Patrick Jenkin, Nick Edwards, George Younger, Keith Joseph, Norman Fowler, Norman Tebbit, Peter Walker, Arthur Cockfield, Paul Channon and to Sir Robert Armstrong.

Wright

INDICES OF LOCAL AUTHORITY DIRECT CURRENT AND CAPITAL EXPENDITURE AT CONSTANT 1975-PRICES
UNITED KINGDOM 1956-1981; 1956 = 100

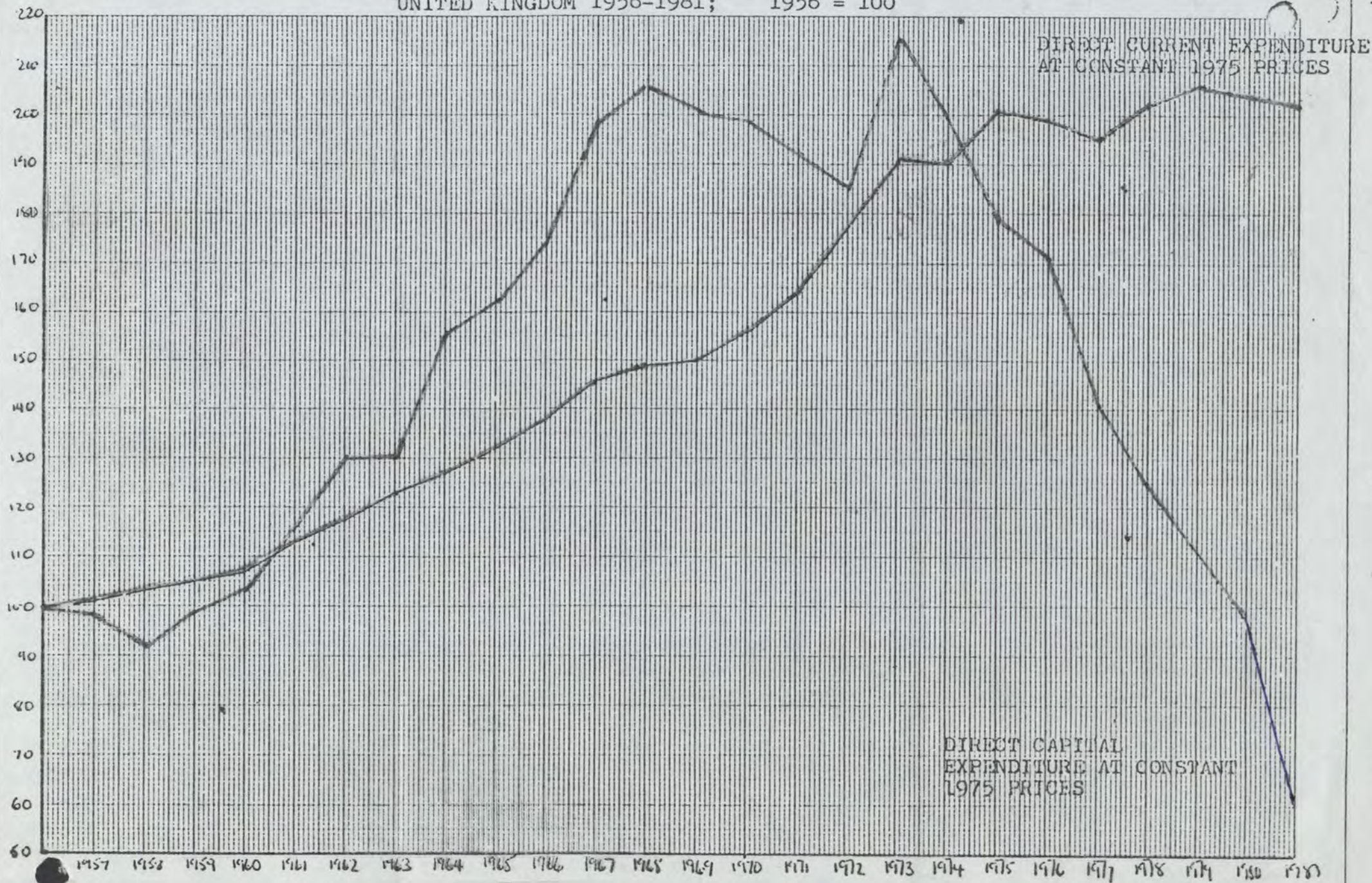


CHART 3

Local Gov

Relations

170 DEC 1988

11 12 11 10 9 8 7 6 5 4 3 2 1
10 9 8 7 6 5 4 3 2 1

Local Govt of
MCS 14

Prime Minister

①

13 December 1982

PRIME MINISTER

Here are comments from the DoE (flag A) on the Policy Unit's ideas (flag B); from the Treasury (flag C) and

LOCAL AUTHORITY CAPITAL EXPENDITURE

this from the Policy Unit again.

Unless there are any points you want

A few comments on Michael Heseltine's conclusions. *to take up yourself, shall*

Tow →
FM
MCS 23/12

Yes please not suggest that Feidy talks to, say, Tom King?

i. If there is "nothing inherently wrong with the capital control system", why did the decline in capital spending, if anything, accelerate after the 1980 Act, while current expenditure remained at or near its peak? In fact, the 1980 Act was bound to have this effect. By removing detailed controls on borrowing, we made it easy for councils to shift receipts from capital to current.

MCS 17/12

ii. If some local authorities do not "understand the system" and "are not used to managing receipts on this scale from the sale of council houses", it is surely the fault of the system. If the system was straightforward and encouraged capital spending, then local authorities would have no difficulty in understanding it and in maintaining their capital programme.

In the next Parliament, we must simplify the system, once for all. And the only way is to return to the pre-War rough equivalence between local government revenue and local government expenditure. That means that the Exchequer must pay directly for some major functions. Education (or teachers' salaries) was and is the prime candidate.

iii. & iv. The right principle is to increase, as far as possible, the proportion of capital receipts which is to be included in the basic allocation. Authorities assume, sensibly enough, that the basic allocation represents the total which we wish them to spend. So it is better if we can let them know our wishes in advance rather than rebuking them afterwards. We should support Leon's proposal to increase the proportion of housing receipts to 75%.

v. It is good that the DoE is now to issue housing allocations two years at a time, as Leon has urged. We should commit ourselves, loudly and clearly, to give capital allocations

for local government and the nationalised industries for the third and fourth year as well (at steadily reducing levels).

vi. I am more dubious about allowing authorities to augment their allocations from carry-over, anticipation and end-year flexibility. Authorities which plan properly should not need such aids.

vii. & viii. It is vital that we avoid an even bigger capital underspend next year. "Aiming off" by combining capital over-allocation with current under-allocation may well be the only way of hitting the target.

Fm

FERDINAND MOUNT



Local Govt
 Prime Minister (2)

ms 21/12

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
 Secretary of State
 Department of the Environment
 2 Marsham Street
 London SW1P 3EB

20 December 1982

LOCAL AUTHORITY CAPITAL EXPENDITURE

Thank you for my copy of your minute to the Prime Minister of 10 December.

I agree that the balance of local authority spending needs to be redressed. We must keep up the pressure on current spending and do what we reasonably can to encourage a switch to capital.

I agree that the Policy Unit's proposals are not the answer.

I greatly welcome your determination to do what you can to improve monitoring and forecasting.

Of the six proposals on your pages 2-3, we have dealt for the time being with (ii), (iii) and (iv). That leaves over-allocation and end-year flexibility, at both local and national level.

Over-allocation

I am not convinced that we should systematically over-allocate the cash limit. We could only do so if we were sure that there is a predictable tendency to underspend. But it is only a short time since we were concerned with capital overspending; and we have only eighteen months' statistics under the new system.

We can consider this further if and when we have sufficient information. But I am sure we should not contemplate any over-allocation that goes beyond quantified estimates of the risks involved.

I am, incidentally, surprised that you think I have agreed to over-allocation in the case of improvement grants. That is not my understanding. Local authorities will be given extra allocations retrospectively if they spend more than 10 per cent above the amount they sought for improvement grants in their HIPs bid. But that bid plus 10% is what we think that, on average, they might spend. Some may be able to spend more, and the concession is designed to help them. Others will spend less. Improvement grant expenditure should still be contained within the housing block of the cash limit.

End-year flexibility

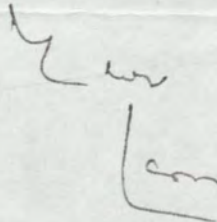
I am afraid I do not think that anything useful would be gained by increasing the 10 per cent end-year flexibility on individual authorities' allocations. It would have been counterproductive to increase the carry forward to 1983-84. That would have reduced rather than increased the pressure on authorities to spend in 1982-83. The same argument holds if you are concerned about a further underspend in 1983-84.

I think the question of end-year flexibility on the national cash limit has to be taken as part of the general issue which, as Cabinet agreed, we are to look at again next year.

A meeting

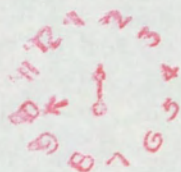
Finally, you suggest that I might call a meeting of Ministers with departmental interests in local authority capital programmes. I am not quite sure what you would wish to get out of this, or what would be the basis for discussion. But if at any stage you would like to put forward specific proposals, and if colleagues would then like a meeting, I should of course be happy to convene one.

I am copying this letter to the Prime Minister and the other recipients of your minute.



LEON BRITTAN

21 DEC 1992





PRIME MINISTER

LOCAL AUTHORITY CAPITAL EXPENDITURE

I have seen Michael Heseltine's minute to you dated 10 December.

2 I agree that there is a need to tackle local authority underspending on capital projects and believe we should consider carefully the proposals Michael makes.

3 A key element in local authorities' reluctance to spend fully on the capital side is the alleged future burden of revenue expenditure that capital spending will bring (point (ii) on page 2 of Michael's minute). I believe we should give some thought to providing guidance in the kind of infrastructure expenditure which will not result in heavy future annual charges. The sort of thing I have in mind is expenditure on industrial estates and workshop units which, apart from the debt service burden, should fulfil this criterion.

4 I am copying this minute to Michael Heseltine and to the recipients of his minute.

PJ

P J

21 December 1982



21 DEC 1982



A circular red stamp is positioned below the date. It features a central emblem, possibly a coat of arms or a logo, surrounded by illegible text. A diagonal red line is drawn across the stamp.



GC J.V. 2

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

Paul Munnie

The Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
LONDON SW1 3EB

JF

29/12

23 December 1982

Dear Michael,

mf

LOCAL AUTHORITY CAPITAL EXPENDITURE

You sent me a copy of your minute of 10 December to the Prime Minister.

Last year education was the only service to spend more than its allocation and capital receipts, on the latest figures the same will be true this year, and this argues for an increase in the education allocation for future years.

Having said that, I agree with your conclusion that there would be merit in a meeting of Ministers responsible for local government services with Leon Brittan to consider ways of avoiding underspend in 1983-84. There might perhaps be scope for officials to prepare the ground for this in advance.

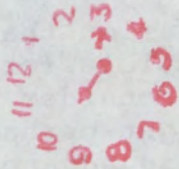
I agree too that there are a number of points worth exploring in your 'options' i-iv. Indeed, as regards iii, I have already written to Leon Brittan - on 17 December - to press for help in the education sector in relation to the threat to the use of a proportion of authorities' accumulated receipts as a result of switching to the system of adding 50% of estimated receipts to the net total for allocations. His reply of 21 December is helpful as far as it goes; but I am sure that we should also seek to give more helpful guidance to authorities about prospective allocations for future years and look at the scope for capital spending on major programmes of repair and maintenance, which you also mention. End-year flexibility is also important.

I am copying this letter to the recipients of your minute.

Emm. Kent

Local G0A : Exp Pt 4

29 DEL 1902



Local Govt.

Prime Minister (2) of SW

SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)



Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

31 December 1982

Dear Secretary of State

LOCAL AUTHORITY CAPITAL EXPENDITURE

Thank you for copying me your minute of 10 December to the Prime Minister. I have also seen Leon Brittan's comments in his letter of 20 December.

Of course, I very much share the view that we must take such action as is reasonably available to us in order to ensure the fullest possible use of the resources we make available to local authorities. The lack of investment shown by shortages of various sorts, including the increasing dilapidation of our towns and streets which the Policy Unit comment upon, are seen by the electorate as the results of deliberate acts by the Government in preventing local authorities from doing what they loudly claim they would like to do, while local authority underspending is lost sight of to all but a few. In short, we are offering the carrot but are also getting the stick.

Whilst accepting that some local authorities have been somewhat over-cautious in their use of capital receipts, I can well understand that prudent treasurers will regard debt redemption as a first call on their receipts and may also wish to invest them. It is for this reason that I decided to reduce the prescribed proportion of housing receipts from 50% to 25%. Our experience is that local authorities spend their housing allocations to the full. By amending the prescribed proportion from 1 April 1983 I have been able to allocate about £20m more than would otherwise have been possible. The change will, clearly, have a significant distributional effect. Generally it will mean that a higher proportion of available resources will be directed to those authorities which have demonstrated a housing need and a smaller proportion to those authorities who happen, for a variety of reasons, to achieve high receipts.

Incidentally, we are not so far seeing in Wales the swing towards private financing which you have in England. Our figures lead us to expect about 47%, but the recent returns show astonishingly wide variations between councils, with a low of 20% and a high of 100%. My officials will be pressing local authorities to place more emphasis on private financing of mortgages.

I am sure the 80% guarantee of future allocations (which you have already announced for housing and which I intend to do for all services at the end of the month) will be an

/important

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3EB



important contribution to local authority planning and expenditure. But on the carry-over, I agree with Leon Brittan that nothing useful is likely to be gained from increasing the end year flexibility to 25%. No local authority in Wales overspent their permitted level of expenditure in 1981/82 nor has any authority said that the present 10% level is inadequate. My concern is that a significant increase could lead to serious difficulties in the management of future years' cash limits: there will be a very real temptation for local authorities in the last year of a Parliament to anticipate stringent economy by a new administration by spending to the hilt next year. We would then be faced with a deficit of 25% in 1984/85.

I agree that we should always be considering ways to improve monitoring and my officials will be in contact with yours about the proposals you have in mind. However, I feel that we need to be very cautious about placing additional demands on local authority (and our own) staff and shall need to ensure that the extra benefit is worth the effort.

To sum up, I am reasonably confident that the steps I have already taken should result in a better expenditure performance by local authorities next year. The emphasis I have placed on rehabilitation - particularly through enveloping - has led to an enthusiastic response by Welsh local authorities. I hope soon to be taking up again with Leon my earlier proposals for a special scheme for the elderly in old housing - the OAP scheme: we are now analysing the special survey into the problem and I shall be writing about it to you and Leon early in the New Year. And I attach great importance to enveloping being included in the relaxation from expenditure ceilings on rehabilitation grants, about which I wrote to Leon on 22 December.

Needless to say, I would be very happy to join in any discussion that may be arranged on these various topics.

I am copying this to the Prime Minister and the other recipients of your minute of 10 December.

Yours sincerely

C Evans

(Approved by the Secretary of State and signed in his absence)

55 JAN 1983
1 2 3 4 5 6 7 8 9 10 11 12

6 JAN 1983
1 2 3 4 5 6 7 8 9 10 11 12

Local Gov.

Relations

CONFIDENTIAL

of 30



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

30 DEC 1982

M Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister 2

WA
31/12

Dear Michael,

LOCAL AUTHORITY CAPITAL EXPENDITURE

My Secretary of State wishes to support the proposals in the Secretary of State for the Environment's minute of 10 December, to the Prime Minister, which through an oversight was not originally copied to this Department. He too is concerned at the persistent pattern of Local Government capital underspending and believes that more decisive steps need to be taken to encourage Local Government to make better use of their resources. While the Policy Unit must be right in its general theme that a more active role needs to be taken to encourage capital expenditure, he is not attracted by the particular measures it proposes.

He favours using the present capital control system as the starting point. He has already taken steps to improve the monitoring and forecasting arrangements for London Transport capital and so will be better placed to recommend remedial action if necessary earlier in 1983/84. The Transport Supplementary Grant arrangements are being used to encourage local authorities to work up schemes to the point of readiness for future years. This Department will also be consulting the local authority associations on whether the re-definition of capital expenditure to include the reconstruction of motorways and trunk roads should be extended to local roads. He considers that much more, however, needs to be done.

My Secretary of State strongly supports the recommendation of greater end year flexibility, by means of increased scope for local authorities to anticipate or carry over allocations. He is less certain about the value of end year flexibility for the national cash limit since it does not in itself act as a constraint (he will however want to return to the question of end year flexibility for the trunk road programme in the next public expenditure round.) He also agrees that the scope for systematic over-allocation at the local authority level needs to be considered as a means of reducing the short fall.

CONFIDENTIAL

CONFIDENTIAL

For the short term, a reserve pool which could be drawn on earlier in the year would help to meet the particular problems posed by the new arrangements for capital receipts in addition to providing additional ways of reducing the short fall in 1983/84. He also considers that an early meeting of Ministers concerned with Local Government services seems sensible contingency planning.

I am copying this to the Private Secretaries of the recipients of the Secretary of State for the Environment's minute of 10 December.

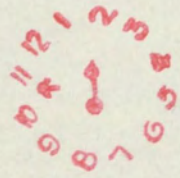
Yours sincerely,

Richard Bird

R BIRD
Private Secretary

CONFIDENTIAL

31 DEC 1982



CONDIMENTAL

Local Authority Relations
PRIC



*SE/BF 7 days
what has
happened to
DOE? Why have
they not replied to
my letter of 4/11?
res 25/11*

Local Gov

cc DES

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq
Private Secretary
No.10 Downing Street
London SW1

29 November 1982

Dear Michael

LOCAL AUTHORITY CAPITAL SPENDING

Your letter of 4 November to David Edmonds sought comments on the note by the Policy Unit on under-spending by local authorities.

We felt it right to leave DOE to comment, in the first instance, on the question of project control - and no doubt David Edmonds will do so. The Chief Secretary does not believe that the answer to the present problem is to go back to the cumbersome and ineffective control system inherited from the last government. He feels the Prime Minister should be aware that there are other and more effective ways of tackling the problem.

One of the most important factors which appears to inhibit local authorities in spending the resources available to them on capital projects is their reluctance to reinvest the funds they receive from selling council houses and land. They tend to spend only the net allocations given to them, not the receipts. The Prime Minister drew attention to this in her letter to the local authority associations. Some steps have been taken to reduce this effect by including 50% of forecast receipts in basic capital spending allocations for all services. Allocations can then be nearer to the cash limit. But the greatest volume of receipts arises from housing sales and the Chief Secretary therefore suggested that for housing the proportion of receipts included in allocations should be increased to 75%. The Minister for Housing was, however, reluctant to agree to this measure because of its presentational impact (although it has been implemented in Wales without difficulty).

In the light of this, the Chief Secretary suggested instead that local authorities should be given freedom to increase their spending on improvement grants without limit in 1983-84. This proposal, which has now been implemented, will enable them to keep up the momentum on the improvement grant package introduced in the last Budget and should reduce any potential underspend next year.

But the Chief Secretary feels that perhaps the most important single step which can be taken - and this has been mentioned both by the local authorities, in responding to the Prime Minister's letter, and by representatives of the construction industry - is to give local authorities clear guidance about the resources they can expect to have for capital investment beyond the coming year. Capital planning figures are given in the Public Expenditure White Paper for most local authority services except those which are the responsibility of the Department of the Environment. Contrary to the report in Friday's Guardian, the Chief Secretary has been pressing the Secretary of State to provide a breakdown of plans for housing in the later years so that local authorities could be given guidance on the allocations they are likely to receive. He had asked that such guidance should be included in the letter sent last week to each local authority giving its housing capital allocation, subject only to the proviso that the assumptions which underlay the guidance should be made clear, so that authorities could make their own judgements.

Although the Minister for Housing decided not to do this, the Chief Secretary believes that it would be of considerable value to local authorities if more information were made available. He is strongly of the view, therefore, that details of the capital provision for housing achievable within the housing programme in the years after 1983-84, qualified as necessary, should be included in the next Public Expenditure White Paper.

A copy of this letter goes to David Edmonds.

Yours sincerely

J. Gieve

JOHN GIEVE
Private Secretary

Local Govt. Qalabat, At 4

29 NOV 1982

12 1
11 10
9 8
7 6
5 4

Qalabat
12 1
11 10
9 8
7 6
5 4

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

4 November 1982

cc DES
Cle Sb
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.

CONFIDENTIAL

Local Gov *gjt*



DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 7601

MINISTER FOR HOUSING AND CONSTRUCTION

cc DBS

CF/PI 50 with

CST's reply to DoE

reply to Mr

2 December 1982

original question

Ms 2/12

Dear Leon,

LOCAL AUTHORITY CAPITAL SPENDING

I should like to comment personally on your Private Secretary's letter of 29 November to Michael Scholar as on two key points my views are incorrectly stated.

You are right in saying that I would not agree to a reduction in the proportion of Housing capital receipts that authorities can add to their capital expenditure, but this was for hard policy not presentational reasons. First whilst the statement that authorities spent their allocations but not their receipts is broadly true as an arithmetical average across all housing authorities, it is certainly not correct at the level of the individual authority. Last year nearly one-fifth of all local authorities spent 90% or more of their housing allocations plus their housing receipts whilst another fifth failed to spend even their allocations. The premise underlying your proposal does not therefore hold good. Second, to do as you suggest and to reduce the proportion of housing receipts that can be used for housing capital expenditure would penalize most severely those Conservative authorities who have been most energetic in pursuing our policies of council house sales, land release and low-cost ownership. I was not willing to hit those councils who have done most to fulfil the Government's housing policies.

On your other point about giving local authorities an advance indication of a minimum level of housing allocation for 1984-85, I am as you know entirely in agreement with you about the desirability of doing this. What your letter did not however bring out was that the only reason why we were unable to tell local authorities last week that they could expect allocations in 1984-85 that would be at least 80% of those in 1983-84 was that we could not agree your stipulation that we should publish what is in our view a quite unrealistically low assumption about housing receipts in 1984-85. To have used the figures you were

Local Govt
Relations
DEC 1982



proposing would have meant showing in that year that there would be a real terms reduction in the Housing programme. Neither Michael Heseltine nor I were willing to offer such an unnecessary and easy hostage to the Opposition. If you can now agree the new and more realistic figures for receipts that we have put to you this week we shall be able to tell local authorities forthwith that they can count on a housing allocation in 1984-85 which would be at least 80% of their 1983-84 allocation. This would indeed be highly desirable.

I am copying this letter to the Prime Minister's Private Secretary.

Yours ever
John Stanley

JOHN STANLEY



Prime Minister (4)

MUS 9/12

Treasury Chambers, Parliament Street, SW1P 3AG

John Stanley Esq MP
Minister for Housing and Construction
Department of the Environment
2 Marsham Street
London SW1P 3EB

9 December 1982

2 Jm.
LOCAL AUTHORITY CAPITAL SPENDING

Thank you for your letter of 2 December.

I am glad that we have now - following the PQ you answered on Tuesday - achieved the main object which was to give Local Authorities guidance about the capital allocations they can expect to receive in 1984-85, as well, of course, as 1983-84.

While I am glad that this much has been achieved, I still hope that you will be prepared to go further and publish the figures for gross capital expenditure implied by the planned provision in the next Public Expenditure White Paper. As you know, I have agreed to an increase in the capital receipts assumption for the later years to a level which would allow you to present the housing capital programme as remaining constant in real terms from 1983-84 onwards. Compared with the trend in recent years, this would be a satisfactory position and you would be able to demonstrate to Local Authorities that a real increase in gross capital expenditure was in prospect if they managed to maintain the momentum of sales of council houses.

I hope you will reconsider your position on this. It is not only a question of providing better information on housing; the absence of a breakdown for housing also inhibits us from providing other useful analyses of public expenditure in the White Paper.

A copy of this letter goes to Michael Scholar at No 10.

LEON BRITTAN

Local Gov

Relations

- 9 DEC 1964

11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100