

CONFIDENTIAL



CCND
2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

17 July 1984

Dear John

LOCAL AUTHORITY CAPITAL EXPENDITURE

At the meeting yesterday between the Chief Secretary, the Secretary of State for Wales, my Secretary of State and the Minister for Housing, the outstanding points from the discussion at E(A) meeting on 10 July in respect of action to curb overspending in 1984/85 were resolved.

I now attach a draft of an oral statement reflecting that discussion which Mr Jenkin would propose to make in the House tomorrow.

I should be grateful for any urgent comments you may have on the draft.

I am copying this letter to the private secretaries to the Prime Minister, members of E(A) Committee, the Lord President, the Home Secretary, the Secretaries of State for Education and Social Services, the Chief Whip and the Captain of the Gentlemen at Arms and Sir Robert Armstrong.

Yours ever

Alan Davis

ALAN DAVIS
Private Secretary

DRAFT

LOCAL AUTHORITY CAPITAL EXPENDITURE - DRAFT ORAL STATEMENT FOR
18 JULY 1984

1. With permission, Mr Speaker, I should like to make a statement on local authority capital expenditure in England. My hon Friend, the Parliamentary Under Secretary of State for Wales, will make a separate oral statement afterwards.

2. On the Third Reading of the Finance Bill on 13 July (official report ^{col} 1401) ⁿ my Rt Hon Friend the Chancellor of the Exchequer said:

8 "The Government have a clear and consistent strategy based on firm control of public expenditure, lower Government borrowing and a proper monetary discipline".

3. Local authority capital expenditure, like capital spending by central Government Departments, is subject to a national cash limit. It is now clear that that cash limit was exceeded last year, and is likely to be exceeded again this year. The Government must therefore ask local authorities to ^{take steps} to deal with the overspend. This is necessary because any excess over the cash limit feeds through into additional local authority borrowing. This increases the local authority borrowing requirement which in turn is a significant element in the public sector borrowing requirement.

4. I deal first with last year, 1983/84. Local authority returns suggest that the cash limit for that year was overspent by around 13%, that is about £368m. Part of the explanation for this overspending lies in the successful campaign to boost home improvement grants, announced by the then Chancellor of the Exchequer in his Budget speech in 1982 and later extended to 1983/84. I estimate that the amount of extra expenditure on

home improvement grants generated by that initiative was about £400m, that is, more than the sum by which local authority capital expenditure exceeded the 1983/84 cash limit.

5. Normally, an excess over the cash limit would be deducted from the resources available in the following year. Such a procedure would clearly be inappropriate in this case.

6. For the current year, 1984/85, returns from local authorities indicate that the national cash limit will again be overspent. Although, at this point in the year, the extent of the excess is uncertain, the returns suggest that the overspend will be at least as great as last year's; it could be substantially higher.

7. The anticipated overspending arises because each local authority is free to spend for capital purposes in any year the sum of its allocations plus the prescribed proportion of the capital receipts arising in the year or in previous years. Many authorities have substantial unspent capital receipts from previous years; the House will remember that in 1981/82 and in 1982/83 local authorities substantially underspent the resources available to them. The ability to spend receipts accumulated from previous years, and other elements of flexibility in the capital control system, mean that the aggregate of all authorities' capital expenditure can exceed the national cash limit allowed for in the Public Expenditure White Paper (Cmd 9143), without any individual authority exceeding its capital provision.

8. Local authority capital spending makes a valuable contribution to the development of the country's infrastructure. It is an important part of the workload of the construction industry. To the extent that local authorities are selling assets and spending the proceeds on worthwhile capital projects, that is something which the Government has encouraged and will continue to encourage.

9. For these reasons, I have decided that it would be wrong to impose a moratorium on all new capital spending commitments this year. That would be very disruptive of local authorities' capital programmes and the effect would spill over into future years.

10. Instead, after talking to the local authority associations yesterday, I am asking authorities to co-operate by restraining their capital spending this year to the level indicated by the capital allocations made to them for the year plus the prescribed proportion of new capital receipts arising in the year. If they are already contractually committed to expenditure higher than that, then the limit will be the level of those commitments. It follows that if an authority's commitments already exceed allocations plus the prescribed proportion of this year's receipts, I have to ask them not to enter into any further contracts, or to incur any other capital expenditure to which they are not contractually committed, from midnight tonight until further notice.

11. This will of course constrain authorities' programmes, but it leaves every authority with the incentive to continue to make sales and so to add to the prescribed proportion of receipts which they will be free to spend. I believe that with local authorities' co-operation, this will be an effective means of restraining expenditure and at the same time will be less disruptive of local authority programmes in the longer term. This request will be reviewed in the light of further figures which I am seeking from the local authorities. I shall then consider whether tighter restraint is needed or, alternatively, whether there is scope for relaxation.

12. Mr Speaker, the arrangements I have announced are necessary in the national interest in order to keep spending and borrowing within general Government guidelines. They rest on the voluntary co-operation of local authorities. I have to say this however. For 1985/86, I shall be bound to have regard to the extent to which authorities, collectively and individually, have responded to my request. If necessary I shall be prepared to use my powers under Part VIII of the Local Government Planning and Land Act 1980 to reduce the total amounts of expenditure which local authorities collectively or individually may incur in that year. I hope that this will not be necessary. I hope that my proposals, which allow authorities a measure of flexibility this year, particularly if they can increase the sales of assets, will succeed in keeping the total close to the national cash limit.

13. At the same time it is clear that the system does not provide effectively for the control, year by year, of the level of aggregate capital expenditure. There *must* be a better way. I intend therefore to review the system in consultation with the local authority associations.

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PRIME MINISTER

LOCAL AUTHORITY CAPITAL EXPENDITURE

Mr. Jenkins' statement is too long and too apologetic. It devotes too much time to explaining and hence implicitly condoning the local authorities' overspend and is not robust enough in projecting what the Government is doing. The Chief Secretary is talking to Mr. Jenkin about this tonight.

In particular the Chief Secretary will be seeking:

- i) Deletion of paragraph 2 which gives a flavour of a mini budget;
- ii) Dropping the suggestion in paragraphs 4 and 5 that last year's overspend will not be clawed back;
- iii) Deletion of paragraph 8;
- iv) Amendment of paragraph 9 to emphasise what the Government is doing, not what it is not doing.
- v) Amendment of the end of paragraph 12 to put greater emphasis on the need to keep to the cash limit.

In my view paragraph 7 could also go, as it appears to exonerate the local authorities.

Agree to await the outcome of the discussions between the Chief Secretary and Mr. Jenkin?

If there is still disagreement between them agree I record your view that the statement should be shorter and more positive?

M
AT

17 July 1984

CONFIDENTIAL

cc Press
cc TF.

ENGLAND

LOCAL AUTHORITY CAPITAL EXPENDITURE - ORAL STATEMENT FOR 13
JULY 1984

1. WITH PERMISSION, MR SPEAKER, I SHOULD LIKE TO MAKE A STATEMENT ON LOCAL AUTHORITY CAPITAL EXPENDITURE IN ENGLAND. MY HON FRIEND THE PARLIAMENTARY UNDER SECRETARY OF STATE FOR WALES WILL MAKE A SEPARATE STATEMENT AFTERWARDS.

2. LOCAL AUTHORITY CAPITAL EXPENDITURE, LIKE CAPITAL SPENDING BY CENTRAL GOVERNMENT DEPARTMENTS, IS SUBJECT TO A NATIONAL CASH LIMIT.

3. FOR LAST YEAR, 1983/84, LOCAL AUTHORITY RETURNS SUGGEST THAT THE CASH LIMIT WAS OVERSPENT BY AROUND 13%, THAT IS ABOUT £368m.

4. NORMALLY, AN EXCESS OVER THE CASH LIMIT WOULD BE DEDUCTED FROM THE RESOURCES AVAILABLE IN THE FOLLOWING YEAR. IN THIS CASE THE OVERSPEND WILL BE TAKEN INTO ACCOUNT WHEN SETTING THE LIMIT FOR 1985/86.

5. ALTHOUGH WE ARE ONLY 3½ MONTHS INTO THIS FINANCIAL YEAR, RETURNS FROM LOCAL AUTHORITIES SUGGEST THAT THE OVERSPEND WILL BE AT LEAST AS HIGH AS LAST YEAR'S; AND IT COULD WELL BE HIGHER.

6. THE ANTICIPATED OVERSPENDING ARISES BECAUSE EACH LOCAL AUTHORITY IS FREE TO SPEND FOR CAPITAL PURPOSES IN ANY YEAR THE SUM OF ITS ALLOCATIONS PLUS THE PRESCRIBED PROPORTION OF THE CAPITAL RECEIPTS ARISING IN THE CURRENT YEAR OR IN PREVIOUS YEARS. MANY AUTHORITIES HAVE SUBSTANTIAL UNSPENT CAPITAL RECEIPTS FROM PREVIOUS YEARS; THE HOUSE WILL REMEMBER THAT IN 1981/82 AND IN 1982/83 LOCAL AUTHORITIES UNDERSPENT THE RESOURCES AVAILABLE TO THEM. THE ABILITY TO SPEND RECEIPTS ACCUMULATED FROM PREVIOUS YEARS, AND OTHER ELEMENTS OF FLEXIBILITY IN THE CAPITAL CONTROL SYSTEM, MEAN THAT THE AGGREGATE OF ALL AUTHORITIES' CAPITAL EXPENDITURE CAN EXCEED THE NATIONAL CASH LIMIT ALLOWED FOR IN THE PUBLIC EXPENDITURE WHITE PAPER WITHOUT ANY INDIVIDUAL AUTHORITY EXCEEDING IT OWN CAPITAL PROVISION.

7. LOCAL AUTHORITY CAPITAL SPENDING MAKES A VALUABLE CONTRIBUTION TO THE DEVELOPMENT OF THE COUNTRY'S INFRASTRUCTURE. IT IS AN IMPORTANT PART OF THE WORKLOAD OF THE CONSTRUCTION INDUSTRY.

8. NEVERTHELESS THE GOVERNMENT MUST TAKE STEPS TO DEAL WITH THE PROSPECTIVE OVERSPEND. ON THE BASIS OF PRESENT INFORMATION I BELIEVE THAT IT WOULD BE WRONG TO ASK FOR A COMPLETE HALT TO ALL NEW CAPITAL SPENDING COMMITMENTS THIS YEAR. INSTEAD, AFTER DISCUSSIONS WITH THE LOCAL AUTHORITY ASSOCIATIONS YESTERDAY, I AM ASKING AUTHORITIES TO CO-OPERATE BY RESTRAINING THEIR CAPITAL SPENDING THIS YEAR TO THE LEVEL OF THE CAPITAL ALLOCATIONS MADE TO THEM FOR THIS YEAR PLUS THE PRESCRIBED PROPORTION OF NEW CAPITAL RECEIPTS ARISING THIS YEAR. IF THEY ARE ALREADY COMMITTED BY CONTRACT TO EXPENDITURE HIGHER THAN THAT, THEY OUGHT TO ENTER INTO NO FURTHER COMMITMENTS AT THIS STAGE.

9. THIS ARRANGEMENT LEAVES EVERY AUTHORITY WITH THE INCENTIVE TO CONTINUE TO MAKE SALES AND SO TO ADD TO THE PRESCRIBED PROPORTION OF RECEIPTS WHICH THEY WILL BE FREE TO SPEND. IN THIS WAY THEY CAN SPEND WITHOUT ADDING TO NET PUBLIC EXPENDITURE. PROVIDED WE HAVE THE CO-OPERATION OF LOCAL AUTHORITIES THIS WILL BE AN EFFECTIVE MEANS OF RESTRAINING EXPENDITURE WITH THE MINIMUM OF DISRUPTION. CAPITAL SPENDING WILL BE MONITORED IN THE COMING MONTHS; I SHALL BE KEEPING THE POSITION UNDER CLOSE REVIEW.

10. THE ARRANGEMENTS WHICH I HAVE ANNOUNCED REST ON THE VOLUNTARY CO-OPERATION OF LOCAL AUTHORITIES. HOWEVER, FOR 1985/86, I SHALL HAVE REGARD TO THE EXTENT TO WHICH AUTHORITIES HAVE RESPONDED TO MY REQUEST. IF NECESSARY I SHALL USE MY STATUTORY POWERS TO REDUCE THE TOTAL EXPENDITURE WHICH LOCAL AUTHORITIES COLLECTIVELY OR INDIVIDUALLY MAY INCUR IN THAT YEAR. I HOPE THAT THIS WILL NOT BE NECESSARY.

11. MR SPEAKER, THE GOVERNMENT IS COMMITTED TO FIRM CONTROL OF PUBLIC EXPENDITURE, LOWER GOVERNMENT BORROWING AND A PROPER MONETARY DISCIPLINE. CASH LIMITS ARE PART OF THAT DISCIPLINE. MY PROPOSALS ARE INTENDED TO HOLD EXPENDITURE IN LINE WITH THE CASH LIMIT, WHILE ALLOWING AUTHORITIES, PARTICULARLY IF THEY CAN INCREASE THEIR SALES OF ASSETS, A MEASURE OF FLEXIBILITY THIS YEAR.



Y SWYDDFA GYMREIG

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel: 01-233 3000 (Switsfwrdd)
01-233 7448 (Linell Union)

Oddi wrth yr Is-Ysgrifennydd Seneddol

WELSH OFFICE

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel: 01-233 3000 (Switchboard)
01-233 7448 (Direct Line)

From The Parliamentary Under-Secretary

17 July 1984

Dear Private Secretary,

LOCAL GOVERNMENT CAPITAL SPENDING: WALES

Following a discussion in E(A) on 10 July, and subsequent Ministerial discussions between the Secretary of State for Wales, the Secretary of State for the Environment and the Chief Secretary, arrangements have been made for a Parliamentary Statement tomorrow.

A copy of the text of the final draft is attached. The statement is to be made by Mr Wyn Roberts, Parliamentary Under Secretary of State, in the unavoidable absence of the Secretary of State.

I would be grateful for urgent clearance of the terms of the attached draft.

Copies of this letter go to the Private Secretaries of the Leader of the House of Commons, the Government Chief Whip, House of Commons, the Government Chief Whip, House of Lords, Lord President of the Council, the Chief Press Secretary (No 10), the Secretary to the Cabinet, the Secretaries of State for Scotland and Environment and the Chief Secretary.

Yours Sincerely

Simon Morris

SIMON MORRIS
Private Secretary

Private Secretary to
The Prime Minister
10 Downing Street
London SW 1



DRAFT PARLIAMENTARY STATEMENT

LOCAL GOVERNMENT CAPITAL SPENDING: WALES

With permission, Mr Speaker, I should like to make a Statement on local government **capital** expenditure in Wales.

[My Right Hon Friend cannot be here today to make this statement because he is in Wales presenting an honorary OBE to an American Industrialist on behalf of Her Majesty The Queen.]

On the basis of local authorities' own forecasts the 1984-85 capital cash limit (WO/LA 1) is on course to be exceeded by £88 million or 33 per cent; discussions with Welsh local authority associations in the framework of the Welsh Consultative Council on Local Government Finance indicate that the excess is likely to be within the range of £40 million to £50 million. We cannot accept the damaging economic impact of overspending on this scale. Accordingly, following the consultations to which I have referred, we are seeking the co-operation of all local authorities in holding expenditure to a more acceptable level, with the aims of preserving the cash limit.

In doing so, my Right Hon Friend has not for the present employed any of the statutory measures which are available. As in 1983-84 we prefer to rely on voluntary co-operation, trusting that each authority will

/play its ...



play its part. Nonetheless, when considering the allocation of resources available for 1985-86 my Right Hon Friend will have regard to the extent to which authorities both collectively and individually have complied with our request for restraint.

Taking action at this relatively early stage of the year enables us to be far more selective in our request for restraint than in 1983-84. Thus county councils, whose aggregate spending is not currently projected to give rise to pressure on the cash limit, are asked only to contain their spending to the levels forecast in April. It is the district tier which will therefore have to trim its spending. District authorities are being asked to restrict their spending in the current year to their capital allocations plus the prescribed portion of receipts accruing in the year or the amount actually committed as at midnight tonight, whichever is larger, apart from limited areas which are of particular local and national priority, namely the Urban Programme (including Urban Development Grants), Welsh Development Agency derelict land clearance, and spending covered by the special allocations made in respect of Enterprise Zones and Priority Estate Projects.

We are asking local authorities to supply us with more precise information to allow monitoring of the course of their capital spending. This material will enable us to urgently review the

/impact of ...



impact of our measures, and whether there is any scope for allowing authorities to enter into some additional commitments. Alternatively, if our action is judged unlikely to have an adequate restraining effect further measures might be necessary.

A copy of the text of the letter which is being sent to Councils has been placed in the Library.



TF
replay
AT

PARLIAMENTARY STATEMENT

LOCAL GOVERNMENT CAPITAL SPENDING : WALES

With permission, Mr Speaker, I should like to make a Statement on local government capital expenditure in Wales.

On the basis of local authorities' own forecasts, the 1984-85 capital cash limit (WO/LA 1) is on course to be exceeded by £88 million. Discussions with Welsh local authority associations, in the framework of the Welsh Consultative Council on Local Government Finance, indicate that the excess is likely to be within the range of £40 million to £50 million. We cannot accept the damaging economic impact of overspending on this scale. Accordingly, following the consultations to which I have referred, we are seeking the co-operation of all local authorities in holding expenditure to a more acceptable level, with the aim of preserving the cash limit.

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/impact of ...



impact of our measures, and see whether there is any scope for allowing authorities to enter into some additional commitments, or whether further restraint is required.

The revised cash limit for 1983-84 was overspent by some £7 million. Normally, an excess over the cash limit would be deducted from the resources available in the following year. Given the circumstances, such a procedure would clearly be inappropriate in this case; the overspend will be taken into account when setting the limit in 1985-86.

A copy of the text of the letter which is being sent to Councils has been placed in the Library.