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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

19 September 1984

A handwritten signature in dark ink, appearing to read 'Nicholas Ridley'.

LOCAL AUTHORITY CAPITAL EXPENDITURE

Thank you for your letter of 17 September.

2 Our discussion in E(A) earlier today covered various aspects of our difficulties over local authority capital expenditure. But I am now writing specifically in response to your comments about the procedure for settling, in the context of the present public expenditure survey discussions, the details of the 1985-86 adjustments to offset the 1983-84 overspend. Various other colleagues have also commented on this following my original proposals for the distribution of the offset adjustment.

3 I have already discussed this issue with you and other colleagues in Survey bilaterals. At the end of our Survey negotiations, we shall of course have to settle on revised aggregate plans for each of the local authority capital programmes in 1985-86 (and the later years). You and others have expressed doubt about seeking to reach that position in two distinct stages, with the offset for the 1983-84 overspend being considered separately from the "underlying" level of programmes.

4 I should therefore make clear that I am quite content to look at the two aspects side by side in the bilateral discussions, and to seek overall agreements on the revised

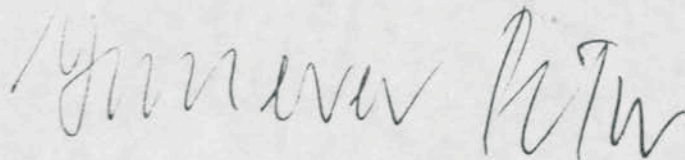
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plans for each programme taking account of the 1983-84 cash limit breach. But I must emphasise that, apart from the difficulties we face in any event in keeping to the overall public expenditure totals already agreed, the overspending in 1983-84 above the levels we had planned, and the requirements or normal cash limit discipline, are added reasons why I must press colleagues for substantial reductions in present provision for local authority capital spending in 1985-86.

5 I hope that this will ease the concerns you express in your letter, and prepare the way for my further bilaterals both with you and other colleagues.

6 I am sending copies of this letter to the Prime Minister, other members of E(A), Leon Brittan, Keith Joseph, Norman Fowler and Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'Glover Peter' or similar, written in dark ink.

PETER REES

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

17th September 1984

Dear Chief Secretary,

LOCAL AUTHORITY CAPITAL EXPENDITURE

Your minute of 11 September *in my folder* to the Prime Minister underlines the need to improve our control of local authority capital expenditure. We need to consider urgently the results of the work which was commissioned by E(A) in July. I cannot agree that we should take any further action this year at least until we have had an opportunity to discuss this collectively.

The recent correspondence about offsetting last year's overspend in 1985-86 shows the lack of a coherent approach to local capital expenditure.

You suggest that a global adjustment should be made to base-lines for 1985-86 to offset last year's overspend, and that its allocation between programmes should be agreed by the Ministers concerned. However treating capital programmes as a block in this way is inconsistent with including them in Departmental programmes in the public expenditure survey. For example I cannot make any meaningful judgment about the balance of expenditure between national and local roads if the local provision is then to be subject to an adjustment which bears no relation to actual expenditure on transport or the circumstances of my programme.

To make cuts in local authorities road programmes, because of capital overspending by different authorities on different activities - eg home improvement grants - is illogical and will have disastrous political effects. It is one of the areas in which we want local authorities to spend up to budget. We will not get the bypasses - so vital to improve the environment as well as the movement of traffic.

Although your letter of 5 September to Ian Gow refers to an agreement you reached with Patrick Jenkin, it was not as far as I know discussed with colleagues generally and I cannot accept it as a collective decision.

What we have agreed collectively is that we should keep overall public expenditure within the totals we have agreed. That will require separate decisions on each of our programmes. To pursue at the same time an across-the-board reduction to offset last year's overspend is only confusing that process. We cannot make any further progress with our bi-lateral until this issue is settled, and that in turn is holding up other urgent decisions. We must also reach a quick decision on your proposal for further action this year and on action to improve the control system. I therefore think it vital that there should be collective consideration of these issues as soon as possible.

I am copying this letter to the Prime Minister and other members of E(A), to Leon Brittan, Keith Joseph and Norman Fowler, and to Sir Robert Armstrong.

Yours sincerely,

Inah Nichol

PP NICHOLAS RIDLEY

*(Approved by the Secretary of State
& signed in his absence).*



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

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From the Minister

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The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

17 September 1984

Peter Rees

*In meeting folder
E(A)*

LOCAL AUTHORITY CAPITAL EXPENDITURE

I have seen your minute of 11 September to the Prime Minister proposing that local authorities should be asked not to enter into any further commitments for the rest of this financial year, and understand that this is to be discussed in E(A) early next week, when I shall be in Brussels.

My departmental interest is limited to expenditure on smallholdings, land drainage and flood protection and sea fisheries harbours which together account for less than 1 per cent of total capital spend by local authorities. Although your proposals will not be welcome, I think that it is unlikely that they will have serious repercussions for these services in the short term. The impact in other areas will however be significant and as you point out in your minute there will be an adverse effect on the construction industry.

Whilst I fully recognise the need for the government to be seen to be in control of public expenditure I am concerned about the effect that your proposals might have in the wider context. I have in mind here that only a short while ago we were encouraging authorities to spend more and I am concerned that your present proposal will attract the same 'stop-go' criticisms that have been levelled at previous administrations.

I am sending copies of this letter to the Prime Minister and other members of E(A) as well as to Leon Brittan, Keith Joseph, Normal Fowler and Sir Robert Armstrong.

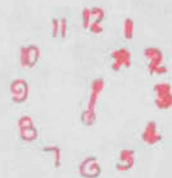
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MICHAEL JOPLING

Local Govt : Relations #22.

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E(A) back up folder

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QUEEN ANNE'S GATE LONDON SW1H 9AT

17 September 1984

LOCAL AUTHORITY CAPITAL EXPENDITURE

in my folder
Your letter of 2 August to Patrick Jenkin made proposals for dealing with the local authority capital overspend on DOE/LA1 in 1983/84.

In their replies, Keith Joseph, Nicholas Ridley and Ian Gow have been unable to agree with your proposals for the clawback of the overspend from the 1985/86 baseline provision (although I note that your minute of 11 September to the Prime Minister implies that this clawback will take place). My purpose in writing is to set out the difficulties which already exist over the capital provision for the fire service and civil defence within the Other Services Block arrangements. That provision is small compared with the provision for services in the other main blocks. Nevertheless, as I explained at our recent bilateral, I face real difficulties in accepting the service reduction you propose. In advance of any collective discussion of your proposals which may be necessary, it might be helpful to colleagues if I briefly explain the nature of the problem.

Our commitment to make provision for civil defence expenditure in response to the 1983 Civil Defence Regulations means that if our credibility in this important policy is to be maintained, any reduction in the 1985/86 baseline provision would have to be borne by the fire service. However, to reflect forecast spending plans of English fire authorities, the existing capital provision (£19m) would have to increase by a factor of 2. This mismatch perpetuates the gap that has existed between PES capital provision and actual spending by fire authorities since the present capital control system was established. It has drawn criticism from the local authority associations about Government policy priorities, and created scope for them to question my adherence to minimum standards of fire cover. Real difficulties have been avoided only because of the flexibility which existing authorities enjoy. The joint fire service boards to be set up in the metropolitan counties and London in 1986/87 will have no such flexibility. The nature of present controls over this expenditure gives me no basis for saying with certainty that current levels of capital spending by fire authorities are essential for the maintenance of operationally efficient brigades within approved minimum standards of fire cover. Equally, I have no basis for concluding that the currently planned level of spending is out of line with real needs. HM Inspectorate of the Fire Service has no evidence that it is. As you know, I am determined that the temporary controls which we plan to take over joint boards when they are established should be used to enable us to make a better informed judgment. Meanwhile, the £3m reduction you propose would increase the apparent under-provision.

The creation of joint boards for the fire service gives added point to these difficulties. If provision is out of line with authorities' plans, to the extent that it now is, when those boards assume responsibility for the Fire Service in London and the metropolitan areas the boards will be able to blame the Government for their inability to maintain an adequate service. If as a result they are unable to maintain minimum standards of fire cover, we should have to increase their provision - which would run counter to all we had said about the scope for

The Rt Hon Peter Rees, QC, MP

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achieving savings through abolition of the Metropolitan County Councils. I am sure that we should avoid this if we possibly can. This problem exists regardless of your proposals on the 1983/84 underspend: but if those proposals result in a further reduction in fire service provision, the problem will be made that much greater. If a solution is to be found within the existing planning total, it will have to be at the expense of other service allocations: clearly a reduced total would have implications for the effect on other services.

As you know from our bilateral, I believe that we must decide collectively, before the 1985-86 provision is settled, how this problem over the fire service allocation is to be overcome, and it was on that basis that I withdrew my relevant bid.

I am copying this letter to the Prime Minister, Members of E(LA), Nicholas Edwards, Michael Jopling and Grey Gowrie.

Leon B. ...

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17 SEP 1994

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