

153/9

CONFIDENTIAL

JR CNO



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

24 September 1984

Dear John

LOCAL AUTHORITY CAPITAL EXPENDITURE - ANNOUNCEMENT

1. Following discussion of local authority capital expenditure at E(A)22nd meeting, last Tuesday, 18 September, I attach a draft statement announcing the outcome which my Secretary of State would like if possible to make tomorrow, 25 September.
2. The statement contains a few minor changes from the draft which the Chief Secretary has already seen. I understand that he would like us to omit the sidlined passages, which refer to the decision not to institute a moratorium on all new capital spending commitments by local authorities, on the grounds that they might damage market confidence.
3. My Secretary of State considers that the two passages are important. First, the statement needs to be unambiguous. There has been press speculation that the Government would institute a moratorium; the point needs to be firmly answered so that local authorities know where they stand.
4. Second, Mr Jenkin does of course accept that the statement must seek to avoid any damage to market confidence. It would be a low-key announcement. But to omit any direct reference to a moratorium would be to invite questions and speculation about the reason for the omission; this might itself damage confidence. The references should therefore be retained.
5. I should be grateful for your comments on the draft as soon as possible. Although we suggest the announcement should be made tomorrow, to avoid further press speculation, we should of course be happy to consider any guidance you have on timing.
6. You will note the reference in the penultimate paragraph to discussions at their request with the local authority associations on the capital control system. Mr Jenkin envisages that a meeting at Ministerial level should be preceded by a meeting with officials from the relevant Departments, including your own. There would of course be no reference to the internal review of the system commissioned at E(A)18th meeting, but the associations' comments would inform the report by officials in response to that remit.
7. I am copying this letter to Andrew Turnbull (10 Downing Street) and the Janet Lewis-Jones (Lord President's Office),

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Elizabeth Hodgkinson (Education), Colin Jones (Welsh Office),
Steve Godber (DHSS), Dinah Nichols (Transport), and Richard
Hatfield (Sir Robert Armstrong's Office).

Yours sincerely

John Ballard

JOHN BALLARD
Private Secretary

John Gieve Esq

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LOCAL AUTHORITY CAPITAL EXPENDITURE

Patrick Jenkin, Secretary of State for the Environment, announced today that, in the light of new information from local authorities in England, he had to ask them to maintain their restraint on capital expenditure in 1984/85 and to redouble their efforts to sell capital assets. [But he has decided not to ask all authorities for a moratorium on new capital spending commitments.]

Speaking in London today, Mr Jenkin said:

"In my statement to the House of Commons on 18 July I asked local authorities in England to restrain their capital expenditure in 1984/85. [I recognised then the valuable contribution which such expenditure makes to the development of the country's infrastructure, and its importance to the workload of the construction industry.] But the Government is committed to firm control of public expenditure, and returns made by the authorities had indicated that, unless action had been taken, there would have been a very substantial overspend on the local authority capital expenditure cash limit, in addition to the overspending which had already occurred in 1983/84. It was therefore necessary to ask for restraint to keep spending within the limits in the Government's public expenditure plans, limits which had been made very clear when this year's cash limit was announced at the time of the Budget.

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I asked authorities to cooperate by limiting expenditure 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 were committed already by contract to expenditure higher than that level, they were asked to enter into no further commitments. I said that I would keep the position under close review.

I have now received returns from all English authorities showing the expenditure to which they were already committed contractually in July, and the expected level of their capital receipts for this year. The returns indicate that there is still likely to be a significant overspend on the cash limit this year. But most authorities have complied with my request in July and this has had the effect of reducing the size of the prospective overspend. I am grateful to all the authorities which have complied. Many have had to take difficult decisions in order to do so.

[In the light of these returns, I have had to consider whether to institute a national moratorium - a request to all authorities not to enter into further contractual commitments this year. I have concluded that a national moratorium would not be justified by the amount of additional savings which it might deliver in the current year.] But the continuing prospect of an overspend makes it essential for authorities to continue to restrain their expenditure for this year as set out in my statement of 18 July.

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I ask all authorities to maximise their capital receipts from sales of assets this year. There is scope for increasing receipts and thus reducing overspending. I will be discussing with the local authority associations ways in which the control of local authority capital expenditure can be improved.

Although most authorities have complied with my request for restraint, some have not. As I said in July, I shall have regard to the extent to which authorities have complied in making expenditure allocations for 1985/86."



Treasury Chambers, Parliament Street, SW1P 3AG

John Ballard Esq
 PS/Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London
 SW1

25 September 1984

Dear John

LOCAL AUTHORITY CAPITAL EXPENDITURE

The Chief Secretary is still strongly opposed to the references to a moratorium in the revised draft of the statement attached to your letter of 24 September. He believes that the reference is unnecessary and will inevitably weaken public confidence in the Government's ability to control public expenditure. He would therefore prefer your Secretary of State to omit the second ~~reference~~ ^{sentence} of the preamble and all but the last sentence of the final paragraph. *on page 2* The Welsh Office draft attached to Colin Jones's letter of 24 September would need to be similarly amended. In answering questions about their statements the two Secretaries of State can surely make it clear that they are maintaining but not going beyond, the position they took up in July.

2 On a separate point, the Chief Secretary would prefer the second sentence of the opening paragraph of the statement to be omitted. He thinks the references to the infrastructure and the construction industry unnecessary, especially as there are signs of steadily increasing capital expenditure in the private sector notwithstanding that pressures on publicly financed expenditure have not abated.

3 I am copying this letter to Andrew Turnbull (10 Downing Street) and Janet Lewis-Jones (Lord President's Office).

Yours
 Richard Broadbent
 R J BROADBENT

25 SEP 1994

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DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
TELEPHONE 01-928 9222
FROM THE SECRETARY OF STATE

John Ballard Esq
Department of Environment
Marsham Street
London SW1

25 September 1984

Dear John

Thank you for sending me a copy of your letter of 24 September to John Gieve about Mr Jenkin's proposed statement on local authority capital expenditure.

We see force in your argument that there should be a reference in the statement to the decision not to introduce a moratorium, not least so as to ensure that local authorities know where they stand. However, if the Treasury were to prefer a shortened form of words, perhaps omitting the reference to the marginal savings which a moratorium could deliver but still making it clear that a moratorium is not to be introduced, then I expect my Secretary of State could agree to that, subject to seeing the text.

I am copying this letter to Andrew Turnbull (10 Downing Street) and to Janet Lewis-Jones (Lord President's Office), Colin Jones (Welsh Office), Steve Godber (DHSS), Dinah Nichols (Department of Transport), John Gieve (Treasury) and Richard Hatfield (Sir Robert Armstrong's Office).

Yours sincerely

MISS C E HODKINSON
Private Secretary

- will request if required.

CSW/DO

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25 SEP 1984



PRIME MINISTER

Mr Jenkin is committed to make an announcement to local authorities on capital spending as his earlier statement said Government would review the position when statistical returns came in.

He and Chief Secretary disagree on drafting of announcement.

(i) The Chief Secretary does not want to refer to a decision not to impose a full moratorium as he believes this demonstrates weakness on the Government's part. Rather than "Government considers moratorium but ducks out" he wants the story to be "Government seeks extra receipts."

(ii) Mr Jenkin thinks it naive to suppose that Government can avoid the question of whether this implies no moratorium - it will be the first to be asked by journalists and local authorities. (Chief Secretary then says Government can't deny that it has decided against a moratorium but it should at least try to get presentation right at the start.)

In my view the Chief Secretary's arguments are slightly better. Agree? Yes

Agree also to remove reference to construction? (The problem is that there is more construction activity than budgeted for.)

*Know. Sec. got his way -
Ch. Sec. must not have
the help with presentation -
not*

Duty Clerk

Andrew Turnbull

25 September 1984

SLHAEI

Note

Following Skensan article in Times 126/9, CST and Mr Jenkin agreed that statement could read to state that Government had considered but rejected a moratorium. Only change theretofore to be drafted is deletion of reference to construction

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~~Ce Press Office~~
To stress call for greater
receipts rather than
highlight Government
backing off from
moratorium.

AT 26/9

LOCAL AUTHORITY CAPITAL EXPENDITURE

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Speaking in London today, Mr Jenkin said:

"In my statement to the House of Commons on 18 July I asked local authorities in England to restrain their capital expenditure in 1984/85. The Government remains committed to firm control of public expenditure, and returns made by the authorities had indicated that, unless action had been taken, there would have been a very substantial overspend on the local authority capital expenditure cash limit, in addition to the overspending which had already occurred in 1983/84. It was therefore necessary to ask for restraint to keep spending within the limits in the Government's public expenditure plans, limits which had been made very clear when this year's cash limit was announced at the time of the Budget.

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In the light of these returns, I have had to consider whether to institute a national moratorium - a request to all authorities not to enter into further contractual commitments this year. I have concluded that a national moratorium would not be justified by the amount of additional savings which it might deliver in the current year. But the continuing prospect of an overspend makes it essential for authorities to continue to restrain their expenditure for this year as set out in my statement of 18 July.

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Y SWYDDFA GYMREIG

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Oddi wrth yr Is-Ysgrifennydd Seneddol



WELSH OFFICE

GWYDYR HOUSE

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From The Parliamentary Under-Secretary

24 September 1984

Dear Mr Gieve

PRESS STATEMENT ON LOCAL AUTHORITY CAPITAL EXPENDITURE

I understand the Chief Secretary is very anxious for an early press statement to be made setting out E(A)'s decision last week not to introduce a full blown moratorium on all local authority capital expenditure but to maintain the present voluntary expenditure limitation measures, as well as encouraging authorities to realise their assets and thus increase their capital receipts. Clearly an early statement on these lines would kill off the present speculation in the press and elsewhere about the likelihood of a full capital moratorium being introduced.

... I attach a draft of the press statement we intend to release at the same time as Mr Jenkins' statement. If you have any comments please let me know as soon as possible; the same goes for Robin Butler and John Ballard to whom I am copying this letter and draft statement.

Yours sincerely

S. Morris

SM SIMON MORRIS
Private Secretary

John Gieve Esq
Private Secretary to
The Rt Hon Peter Rees QC MP
HM Treasury
Parliament Street
LONDON



DRAFT PRESS RELEASE

WELSH LOCAL AUTHORITIES CAPITAL EXPENDITURE

Last July the Secretary of State for Wales asked Welsh local authorities to voluntarily limit their capital expenditure in the current year. This request followed an analysis of authorities planned capital expenditure which showed that it was on course to exceed by a substantial margin the Government's cash limit. Authorities were also asked to provide further information on their revised spending plans.

This latest information has been considered by Ministers. It continues to show a potential excess over the Government's cash limit but to a lesser extent than that originally forecast. Authorities' returns indicate that the excess is largely due to a shortfall in anticipated capital receipts at the district level compared with the estimates underlying the Government's expenditure plans. This has been discussed with representatives of the Welsh districts and Ministers have concluded that the continuing prospect of an overspend requires their existing request for voluntary restraint on capital expenditure in the current year to be maintained but that an extension to a complete moratorium would not be justified. However authorities are being asked to make every effort to maximise their capital receipts in the current year by the sale of assets since such receipts can offset gross expenditure and thus effectively reduce the potential overspend of the cash limit.

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24 SEP 1984