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FROM THE PRIVATE SECRETARY  
TO THE SECRETARY OF STATE  
FOR WALES

14 December 1984

Sec. Andrew,

The Secretary of State expects to make a statement on the capital control system and capital allocations in Wales on Tuesday 18 December.

I enclose an early draft. The final draft will be circulated early on Monday and comments will be invited.

I am sending a copy to Richard Broadbent at the Chief Secretary's Office.

Yours sincerely  
Keith Dalrymple

# CONFIDENTIAL

DRAFT PARLIAMENTARY STATEMENT - 18 DECEMBER 1984

## LOCAL AUTHORITY CAPITAL EXPENDITURE: WALES

Mr Speaker, with permission I wish to make a statement about the future arrangements for controlling local authority capital spending in Wales, and the level and distribution of capital resources in 1985/86.

The decisions I am announcing this afternoon have to be seen against the background that since 1979/80 Welsh local authorities have invested, at 1984/85 prices, nearly £2bn in a wide range of projects which have significantly extended and improved the social and economic infrastructure in Wales. The Government's expenditure plans to be published in the forthcoming Public Expenditure White Paper, envisage that over the next three years they should invest a further £1,100m, again at 1984/85 prices. The largest service element within this total of over £3bn is some £1.3bn in respect of housing.

Although in the Welsh context these sums are large, they still represent a limit on the very many capital schemes local authorities would like to carry forward. In common with central government, local authorities will always need to make difficult choices of priority.

The Government recognises that for individual councils to take sensible decisions on priorities and secure value for money from their investment, they require a firm and predictable basis for planning capital programmes. This has been a major consideration in the review of the control system which my hon Friend the Parliamentary Under Secretary of State announced to the House on 16 July, and which is now complete.

In the course of this review I have considered carefully the views of both the Welsh Counties Committee and the Committee of Welsh District Councils. They have emphasised the need for greater flexibility at both individual authority and national level. They attached particular importance to being given a better view of the future trend in resources, and argued very strongly for continued access to their reserve of accumulated receipts.

My decisions on the new framework for managing capital spending in Wales in 1985/86 have taken these views into account.

I have decided, with the agreement of my rt hon Friend the Chief Secretary to make a significant change to the rules governing the operation of the national cash limit. The present facility for carrying forward to the following year a shortfall of up to 2 per cent against the aggregate planning total will be increased to 5 per cent. In addition, I have also decided not to take corrective action within the year to restrain spending if the cash limit is on course to be exceeded by less than 5 per cent. Any over-spending would, of course, need to be taken into account when determining provision for a subsequent year. These changes should increase authorities' confidence that in-year action can be avoided, and ensure that resources are not lost if there is only a moderate degree of underspending. The measures also serve to bring the year to year tolerance at the national level closer to the 10 per cent which exists at the local level, and which I have decided to retain for 1985/86.

The main reason for the capital overspending experienced in Wales in the last 2 years is that the allocation mechanism has not so far taken account of the inherent spending power provided by accumulated receipts. These are expected to amount to over £300m at the beginning of next year, all but £10m being in the district tier.

The districts have argued that this should all be available to add to their spending power. Superficially this proposal has its attractions. On closer examination, however, it is clear, and the districts accept this, that they are merely asking for the ability to spend the major part of their housing receipts twice. This is because Housing allocations issued since 1981/82 have been calculated so as to include a large proportion of receipts forecast to accrue in each year. Notwithstanding this housing allocations have always carried full borrowing cover. Districts have therefore been able to borrow to finance the bulk of their housing spending without needing to use receipts built in to the allocation. It is largely for this reason that they have been able to accumulate such a large reserve. It is unreasonable for them to expect to use the spending power of the major part of their receipts for a second time.

However, I recognise that some councils will have based their plans for future years on a continued access to their accumulated receipts. I have, therefore, decided not to eliminate but merely to reduce the proportion of receipts which can be used to enhance the spending power of allocations. In

the case of housing the proportion for most housing receipts is at present 25 per cent. Next year this figure will be reduced by ten percentage points to 15 per cent. For non-housing receipts I have decided to introduce a prescribed proportion of 50 per cent. These lower prescribed proportions should significantly reduce the pressure on the all-Wales cash limit.

The changes I have announced so far contribute to increased certainty and predictability. This can also be enhanced by the method adopted to distribute allocations between authorities, and by improving the forward view of resources. I announced in the Summer that from 1985/86 onwards the greater part of county allocations, and major elements of district allocations will be based on a formula approach. I have decided to reinforce this by issuing forward indications for 2 future years linked to 80 per cent of the planned level of resources available for allocation in each year. This is an improvement on the 80 per cent and 70 per cent factors used to date.

I turn now to the resources available for 1985/86.

Gross expenditure provision underlying the cash limit for the coming year will be £348m, marginally higher than the level of provision for the present year.

Within this figure gross provision for local authority Housing is £146.5m. My first priority has been to ensure that each authority should receive sufficient to cover the forward indications given them in July 1984. In addition, bids for an allocation to meet expenditure needs under the Housing Defects Act 1984 on privately owned PRC dwellings have been met in full as well as the bids for repairing authorities' own prefabricated reinforced concrete dwellings. Bids for enveloping schemes will be met in full except where adjustments are appropriate to take account of the fact that some bids included expenditure already met by an allocation in 1984/85. I am making provision to enable the two existing Welsh Priority Estates Projects to continue and for a new scheme to commence.

The Housing Corporation's net capital provision will be £39m. I expect receipts and private sector finance to enhance that total by another £3m to £4m.

Total resources for roads and transport amount to £64m. Within this sum I have accepted just over £53m for TSG purposes. As I announced at the Welsh Grand Committee last Wednesday this will enable 3 new major highway projects, each estimated to cover over £5m, to start in 1985. These are the Lougher Bridge and Approaches between Dyfed and West Glamorgan, the mid Rhondda Access road in Mid Glamorgan, and the Farndon By-Pass which is a joint project between Clwyd and Cheshire County Councils. The transport allocation also enables authorities to continue with other important road schemes currently underway such as the Llandudno and Brymbo link roads in the North and the Grangetown link road, Aberdare, Abercynon and Tonyrefail by-passes in the South.

Apart from housing and roads, gross capital provision for other service blocks in 1985/86 is broadly unchanged from the projected level of spending in the current year.

Under the terms of the new allocation arrangements agreed with the association in the Summer allocations may be made for projects of regional or national importance and high priority which are too large for an authority to accommodate within its formula allocation. The special allocations I have decided to make are as follows.

The Enterprise Zones have been given additional resources amounting to £ m to further their development. In recognition of its regional status, the Polytechnic for Wales has also been given an individual allocation of £<sup>1</sup>/<sub>2</sub>m per annum over the next few years to promote its technological development. Other allocations have been made for major coast protection works at Prestatyn, urgent refuse disposal schemes in Swansea, Rhondda and Inys Mon, flood alleviation works in Denbigh, repairs to the Brecon and Monmouth Canal, and towards the cost of replacing the headquarters of Powys County Council, which have become structurally unsound.

[I am also glad that my rt hon Friend the Secretary of State for Transport has been able to make a special allocation to cover the cost of extending the runway at Cardiff (Wales) Airport to allow for DC10 scale aircraft to use the facility, fully laden, for trans-atlantic flights. The extension will mark a significant and welcome improvement in the communications infrastructure of South Wales].

The cash limit provision for 1985/86, which is gross spending less forecast receipts, is £248m. The total available for allocation linked with this is £262m. Of this sum about £14m is being withheld from those district authorities which resolved to spend in excess of the voluntary restraint level for the present year. If the authorities concerned are able to realise sufficient additional receipts, all or part of the allocations withheld will be restored to them as soon as possible after the end of the present financial year. The precise arrangements for linking the response to the appeal for additional receipts to authorities' liability for holdback of resources have been circulated to councils today, together with the formal notification of allocations. Details of these allocations have been placed in the Library to the House.

I believe the new framework for managing local authority capital spending in Wales represents a fair and reasonable compromise between the objectives of local and central government. Coupled with level of resources I have announced it is clear proof of the Government's desire to provide a firm foundation for a wide and effective programme of worthwhile capital schemes.