

*We must cancel for the future the rule under which the receipts are distributed among other councils. I think the system Paul and Lord Pres Business Manager, SS/Emu C/16x, CST to sort this out? Oliver has offered a pre-meeting to go on to technicalities.*

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PRIME MINISTER

19 July 1985

B/P for 1400 meeting AT 12/17 on 29/17

LOCAL AUTHORITY CAPITAL SPENDING

At the moment, the system works like this:

1. Blankshire council sells some disused land on 1 April 1985, and receives £100. (This is called an "in-year receipt".)
2. Regardless of what Blankshire actually does with the cash, it gets permission to spend an amount equal to 30% of the receipt, ie £30. (This is called the "prescribed proportion for in-year receipts"; the exact percentage depends on whether the sale is of housing or non-housing stock.)
3. The remaining £70 is double-counted. It is both redistributed in the form of extra permissions for spending by other councils, and carried over to the next year by Blankshire as an "accumulated receipt".
4. In 1986-87, Blankshire gets permission to spend 30% of the £70 - ie £21 - (the so-called "prescribed proportion of accumulated receipts") as well as any of the original £30 which it has not used up. This series of diminishing permissions continues ad infinitum.

The result of this system is that, for every £100 raised by Blankshire in 1985-86, £100 is spent over an infinite period by Blankshire itself, and another £70 is spent by other councils. Because Blankshire is not allowed to spend all the money at once, it gradually builds up a pile of unspent permissions. For England as a whole, these now total about £6 billion.

Changing the System

Everybody agrees that:

- i. the double-counting has to be eliminated;
- ii. this must not be done retrospectively.

The question is what "retrospectively" means.

The Chief Secretary wants a system like this:

- 1. Blankshire sells the land for £100 on 1 April 1985.
- 2. It gets permission to spend £30 of this within the year.
- 3. The remaining £70 is redistributed in the form of extra spending permissions for other councils.
- 4. Blankshire gets no more the next year, unless it has spent less than its £30; and even if it does have any of the £30 left over, only 30% of that can be spent in 1986-87. In the subsequent year, it can spend only 30% of what was left over from 1986-87, and so on.

The effect of this scheme is to eliminate the double-counting of money received by councils from 1985-86 onwards, and to reduce the pile of unspent permissions ("accumulated receipts") very rapidly:

	<u>Accumulated Receipts</u>
	(£m)
1985-86	c.6,000
1986-87	c.4,700
1987-88	c.4,300

But Patrick Jenkin rightly says that the Treasury scheme would be "retrospective" and would put him in an impossible

position, since he promised councils last year that they would in the long run be able to spend the whole of their 1985-86 receipts - not just a portion.

Patrick therefore wants the new system to affect only receipts gained from 1986-87 onwards. This would prevent the pile of "accumulated receipts" from growing at its present pace, but it would not deliver anything like the spending totals that the Treasury wants. The financial position is made even worse by DoE's demand that there should be a higher "prescribed proportion" for in-year receipts in 1986-87.

The solution may be to adopt the DoE suggestion of a fully prospective change in the system, but with lower "prescribed proportions" for "accumulated receipts" (eg 10%). This way, councils would still be able to spend all their 1985-86 receipts in the long run; but they would not be able to cause problems for the PSBR by using up their unspent permissions at a fast rate. The Chancellor apparently thinks that this would be difficult to sell; but it would not be as difficult as the Treasury's own proposal since it would not involve any element of retrospection; and it would deliver the Treasury's spending totals. DoE will certainly regard it as too draconian, but it would at least make sure that Patrick did not have to renege on any commitments made last year.

### Conclusion

We recommend that you should hold a meeting with the principal participants to settle the issue. You could be provided both with a full brief on the options and a short seminar to clarify any obscure points before the meeting.

*Oliver Letwin*

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