



PRIME MINISTER

**LOCAL AUTHORITY CAPITAL EXPENDITURE 1986/87**

I am writing to register firm support for the general line adopted in Kenneth Baker's letter to you of 4 September on the control of local authority capital spending. *with DV*

The note prepared by officials clearly highlights the very real technical and presentational problems associated with attempting to implement the Policy Unit's ideas in 1986/87, either through primary legislation or novel use of existing provisions. Kenneth is surely right to argue for maintaining the status quo in terms of control, at least for 1986/87.

In any event, whatever is decided for England, there are no reasons which justify any material change in the control arrangements for Wales prior to the introduction of a well thought out long-term alternative. Capital spending in Wales in the present year is forecast as being within the 10 per cent tolerance around the cash limit agreed with Treasury. Spending is under control. Furthermore, the latest information strongly indicates that far from growing, the level of accumulated receipts held by Welsh councils could now be falling.

As for resources I can well understand the concern of colleagues in English spending Departments at the extremely sharp fall in the allocation total associated with any of the control systems linked to the present level of provision. Such a fall (however it was presented) would be seen by many, including a good number of our supporters, as a sign that we no longer favour capital against current spending. Our policy in this respect has not changed and we must therefore be careful not to provide our opponents with any opportunity to suggest that it has. The case for an adjustment to the existing local authority capital baselines to reinforce our policies and reflect reality will therefore need to be fully aired in the bilaterals.

As for the reform of the entire framework for controlling local authority capital spending I also am attracted to the idea of focussing attention primarily on borrowing, and am exploring the possibilities with the Welsh associations. I am sure none of us under-rate the difficulty of introducing a fully fledged EFL system for the local authority sector, but the rewards for finding a sound and workable system consistent with our radical ideas for the revenue side are worth striving for.

/ I am copying this to other members of E(A), to Norman Fowler, Keith Joseph, John Biffen, John Wakeham and Sir Robert Armstrong.

*AS*

9 September 1985

R N E