



FROM: CHIEF SECRETARY

DATE: 10 September 1985

PRIME MINISTER

**LOCAL AUTHORITY CAPITAL EXPENDITURE 1986-87**

I have seen Kenneth Baker's minute to you dated 4 September and agree that the Policy Unit's proposal will not, after all, improve matters. I therefore reluctantly agree with Kenneth's conclusion that we should now settle for living with the present system for 1986-87.

2 But since agreement on ways of curbing local authorities' spending power from receipts has not proved possible, we must also live with the lower level of allocations which becomes necessary to avoid overspending of baseline provision. We should not underestimate the difficulties of this course. But it would be wrong to increase provision when the reason for lower allocations is that local authorities have so much spending power from other sources.

3 I also agree with Kenneth that we must make early progress on proposals for longer term reform of the capital control system. The radical options based on control of borrowing have attractions if they can be made to work in practice and deliver effective control. But we shall need to be sure that this can in fact be done.

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

JOHN MacGREGOR



LOCAL GOVT: Relations. Pt 28



CONTROL