



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

Prime Minister

(2)

Sir Keith argues for

end-year flexibility.

21 June 1983

MUS 22/6

*Mr Peter*

*[Handwritten signature]*

End-Year Flexibility on Capital Programmes

I agree with Tom King (his letter of 9 May to your predecessor) that the inflexibility of the present system is a major cause of underspending on most local authority capital programmes. Local authorities are discouraged from full and effective use of the power to vire between services because of the risk of being unable to meet committed expenditure in later years and also because of fears about the revenue consequences of capital expenditure. Furthermore, the present system does not allow local authorities to take full advantage of higher than forecast receipts. Some form of end-year flexibility is essential if we are to avoid a repetition of the damagingly large underspending of £1.5 billion in the last two years - underspending indeed that doubled between 1981-82 and 1982-83.

Unlike other service blocks, the education sector has not been subject to large underspends. Final figures for 1981-82 show a net underspend of only £15m and a small overspend is forecast for 1982-83, even after allowing for the additional £45m approved last autumn. Provision is well below need and we have clear evidence of the willingness of some education authorities to remedy deficiencies in their capital provision. If the Government's targets for the removal of surplus school places and for the rationalisation of polytechnics and other local authority colleges are to be met (and both will serve to reduce subsequent revenue expenditure) and if the present backlog of repairs and maintenance is to be reduced (thereby cutting future maintenance costs), I believe that a substantial addition to the present planned level of local authority capital expenditure on education

/is needed

The Rt Hon Peter Rees MP  
Chief Secretary  
Treasury  
Parliament Street  
LONDON SW1P 3AG

is needed both this year and next.

I am not clear whether Tom King envisaged that the 1982-83 underspend in a particular service block would be added to the same block for 1983-84 and 1984-85, or that the 1982-83 underspend on all services should be carried forward and then redistributed between the services according to need and willingness to spend. I would prefer the second course since it would enable authorities to make the best use of resources.

I am sure that we should make progress on these issues in time for our decisions to be effective in the current financial year. Perhaps we can discuss them when those of us directly concerned meet in the next few weeks to consider local authority current expenditure in 1984-85.

I should also like to see end-year flexibility extended in some form to other educational capital programmes. Voluntary aided schools are part of the maintained sector; but because capital grant is paid from my Vote, DES is denied the power of virement between years available to local authorities on a limited scale. We are statutorily required to pay legitimate grant claims, and controlling the incidence of this expenditure is very difficult, not least because the expertise of individual schools is almost invariably less than that of local authorities when it comes to managing building work. I believe that the Department should be allowed to permit the carrying over to the following year of 10 per cent of the Estimate if projects are shown to be slipping, and similarly to permit anticipation of 10 per cent of the next year's Estimate if legitimate claims are materialising earlier than expected. On present figures this would mean plus or minus £4m. Such a change would simply place voluntary aided schools on the same footing as the remainder of the maintained sector. Similar considerations apply to some of the directly funded colleges within the higher education system and to the Research Councils. I hope you will agree that officials here should work out with the Treasury some detailed proposals which you and I can consider.

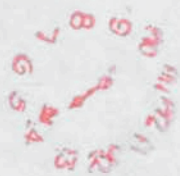
I am copying this letter to the Prime Minister, other members of the Cabinet, the Minister for the Arts and Sir Robert Armstrong.

Tom King,

Kew

ECON POL

Public Exp + Cash Limits  
Pt 22



21 JUN 1972



Prime Minister 2

cc No  
2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

Pressure to

introduce end-year

flexibility is building

up.

ms 11/5

My ref:

Your ref:

9 May 1983

Dear Lea

END-YEAR FLEXIBILITY ON CAPITAL PROGRAMMES

I was glad to see that in the guidelines for this year's public expenditure survey you recognise the need for greater priority to be given to capital expenditure programmes. I fully endorse this. This is a clear need for more capital expenditure in many parts of the economy. In my own programmes the particular need is for more to be spent on improvement and repair of the housing stock, on urban renewal and on repair and renewal of sewers and other pipes.

Against this background I shall be making a case for increased provision for some of these capital programmes in the current survey. We also need to do everything that we can to make sure that the resources which we do make available for capital programmes are utilised, and that we do not suffer continued under-spending as we have done in the last two years.

I recognise that the traditional Treasury argument is that under-spending is a sign of excess provision, leading to the conclusion that far from increasing provision we should reduce it in future years. This is however to ignore the rigidities and inflexibility in the system which make it difficult if not impossible for local authorities and other bodies to spend right up to a cash limit determined for a single year. In the last two years, for example, authorities could not realistically have planned for the favourable movements of construction prices. Nor could they have anticipated the very high level of capital receipts they have achieved, mainly from the sale of council houses, which has surpassed expectations both as to the number of dwellings sold and as to the amount of private finance which have supported these sales. The traditional argument leads therefore to a vicious circle. The inflexibility in the system compels authorities to underspend provisions. And this is used in turn as an argument for reducing provision yet further.

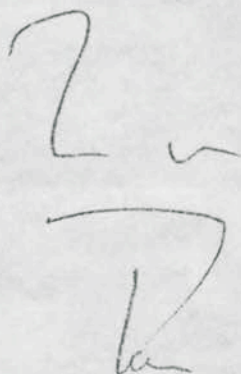
To illustrate what I mean the total capital underspend on my programmes in 1981/2 and 1982/3 were approximately £840m and £1040m respectively. Housing posed a particular problem in that the gross expenditure line is heavily dependent on the continuing and somewhat volatile flow of capital receipts arising from sales of council houses. Moreover the assumptions we made in cur plans about receipts have proved to be too pessimistic with the result that some £160m in 1981/2 and £490m in 1982/3 which could have boosted local authorities capital allocations have in effect been foregone.

The "lost" provision could give a much needed boost to capital programmes if it were to be restored now and I therefore want to make

One specific proposition that all cash limits on capital programmes for 1983/4 or 1984/5 be increased by the forecast underspends in 1982/3 (the distribution between the years being for further consideration.) That at any rate would be my proposal. I would be happy to discuss any alternative proposal on end-year flexibility which you wish to advance, or the alternative ideas put forward recently by George Younger and David Howell in their letters of 29 March and 7 March.

What is imperative is that we reach an early conclusion on this matter. There are already signs that local authorities are having to rein back on housing improvement expenditure because they fear that there will not be adequate resources next year. If we could say now that all or at least some of the unspent resources of the last two years could be carried forward to this year or next we should overcome this problem. This would be very much more satisfactory than deferring action until the autumn, and then urging authorities to spend to the limit as we did last year. That crash programme led to some inefficient use of resources, and exposed us to justifiable criticism.

I hope you will agree to an early meeting on this. I am copying this letter to Cabinet colleagues, the Minister for Arts and Sir Robert Armstrong.

A handwritten signature in dark ink, consisting of a large, stylized 'T' followed by a smaller 'K' and a horizontal line underneath.

TOM KING

NO MAT 1983

