

CONFIDENTIAL

CCBG



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

5. December 1985

*John Nichol*

*NBSPN*

E(LF)(85)19: LOCAL AUTHORITY CAPITAL EXPENDITURE CONTROL

Your paper of 7 November makes proposals on how the present system of capital control on net expenditure might be modified, as an option for inclusion in the Green Paper. Before I circulate a draft of the Green Paper, it may be helpful to set out how I intend to take your suggestions into account, following the discussions that have taken place between our officials.

I accept that the proposals for a reformed control over capital expenditure can be presented on either a gross or a net basis. But the great majority of the elements in your proposal are common to either approach. Thus we both propose that:

control at national level should be on gross expenditure;

the cascade use of capital receipts should be abolished;

authorities should be allowed to use a proportion of accumulated, but not of in-year receipts;

borrowing limits should probably be set below total allocations (although this is a point deserving further consideration);

the virement of allocations between services and in part between years should continue to be allowed (a point about which John MacGregor has expressed concern);

indications of allocations for two future years should be given;

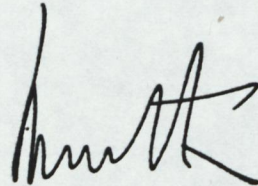
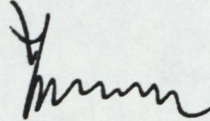
direct revenue contributions could be used, in a modest way, to enhance allocations.

The main difference with your approach seems to be largely presentational. You would allow authorities to top-up allocations with limited use of accumulated receipts. I would propose to incorporate in a gross allocation an element derived from an authority's accumulated receipts. Whether your approach would allow more local discretion would depend on the balance, under either approach, between spending power based on receipts and spending power based on need to spend. You also suggest that allocations should as far as possible be made on a formula basis. I do not think there is much between us here - whilst to some extent a formula approach can be used, allowance must also be made for "lumpy" expenditure programmes, including, for example, road schemes.



I suggest that in the Green Paper, we present the net and gross approaches as possible variations on the common theme of a control on expenditure. Comments would be invited on the various items listed above, including the different ways in which authorities could be given permission to spend on the basis of their accumulated receipts in addition to the "basic" allocation for need. We could imply that the solutions might be different in the two countries. I hope that you will be content with this approach.

I am copying this letter to the Prime Minister and other members of E(LF), and to Sir Robert Armstrong.



KENNETH BAKER



CONFIDENTIAL



VCCBG

Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Llinell Union)

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

9 December 1985

*De K...*

*NBA*

E(LF)(85)19: LOCAL AUTHORITY CAPITAL EXPENDITURE CONTROL

Thank you for your letter of 5 December. I am content to proceed on the basis that the net and gross approaches should be presented in the Green Paper as variations on the theme of the control of total expenditure.

I do not agree, however, with your analysis that the major difference between the gross and net approach is largely presentational. You will remember the difficulty we faced when the regulations reducing the prescribed proportion of receipts were before the House earlier this year. The net approach would still allow authorities reasonable access to their receipts, albeit over a period of time, whereas the gross option would tie down the use rather more tightly. We should make these differences clear in the Green Paper.

You touched on the formula basis we use for the main part of our allocations and I note that you see scope for similar arrangements in England.

... I am copying this letter to the Prime Minister, other members of E(LF) and Sir Robert Armstrong.

*John*  
*NBA*

The Rt Hon Kenneth Baker MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
London  
SW1P 3EB



Local Govt: Relations  
PK 29

