

CONFIDENTIAL



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

c.c. Chancellor
FST MST EST
Mr Butler Mr Anderson
Mr Monck Mr Gilmore
Mr Jameson Mr Scholten
Mr Turnbull Mr Burr
Ms Boys Mr Gray
Mr Instore Mr Revoltz
Mr ML Williams
Mr Perfect Mr Lord
Mr Pirie Mr A. Allen

10th March 1986

Dear Kenneth,

LOCAL GOVERNMENT BILL, 1986-87 SESSION

Now that Cabinet has endorsed the legislative programme for the 1986-87 session you will no doubt be making more detailed plans for the Local Government Bill.

To implement the autumn decision that the new local authority capital control system should be in place for the 1987-88 financial year the Bill will of course need to be introduced right at the start of the 1986-87 session and receive the Royal Assent before the end of March 1987. This timing will also have the advantage of bringing the provisions on competition in the provision of local government services before Parliament early in the session, which will be welcomed by many of our supporters. But it will involve a very tight timetable and will require that the Bill is drafted and approved in time for presentation at the very start of the session.

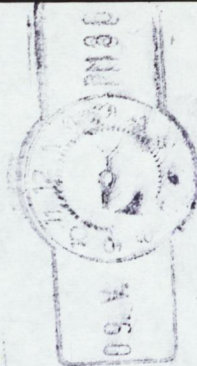
I am sure you will have the timing point well in mind, but would welcome your confirmation of this, so that I can develop appropriate proposals for the handling of local authority capital expenditure in the 1986 Public Expenditure Survey.

I am copying this letter to John Biffen, John Wakeham and Bertie Denham.

Yours ever,
John

JOHN MacGREGOR

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CEBG



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Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

7 May 1986

N BPM.

De JN

*revised from
9/5*

LOCAL AUTHORITY CAPITAL EXPENDITURE CONTROLS

- Will request if required

*attached
for please
I stay letters
restarted here.*

You wrote to Kenneth Baker on 10 March about the introduction of legislation to implement our proposals and suggesting that decisions for capital spending plans in 1987/88 could be framed under the new system. I have seen his reply of 25 March and his subsequent letter of 28 April.

Like Kenneth, I see considerable difficulties in introducing radically revised arrangements for 1987/88. In terms of timing and presentation alone we would be open to criticism if, as proposed, we were to lay our controversial proposals before the House early in the next session and announce capital allocations for 1987/88 based on them at about the same time. Any delay in making allocations in an attempt to avoid this would soon be spotted and would leave us exposed. We must ensure that our arrangements for informing local government about our plans for capital spending in 1987/88 are firm, well thought out and designed to encourage long term planning and effective use of resources. We would not be able to achieve that aim if we were to proceed as you suggest.

We also need to consider the implication of your proposals for the RSG timetable which we have agreed should be brought forward this year. Decisions on capital expenditure feed through into the RSG calculations and we could again be criticised for incorporating the effect of a new system, in advance of legislation, in RSG reports laid before the House at about the same time as the Bill.

As you are aware, capital spending in Wales in 1985/86 is very close to plans, demonstrating that the present system can be made to work. I would

/not wish us ...

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Parliament Street
London
SW1P 3AG



not wish us to move to a new one without careful and detailed consideration of what is likely to be an unpopular measure. It would be unwise to rush changes through with the attendant risk of flaws and I must say that I see no advantage in hasty legislation in the next session with a view to implementation in 1987/88.

Your letter of 8 April to Kenneth expressed concern about the abuse of deferred purchase schemes to flaunt both the capital and current control systems. You agreed in your letter of 16 April that provision to deal with any abuse should be included within the capital control provisions in the Local Government Bill, as previously envisaged. Schemes like those in Islington are clearly to be deplored but many other authorities in both Wales and England have sensibly used deferred purchase to finance major schemes which we have sponsored and which could not otherwise be easily accommodated within annual allocations. We need to explore the possibility of allowing for such arrangements to continue, for example by limiting them to specific large projects, while removing scope for abuse by a minority of Councils.

/ Copies of this letter go to the Prime Minister, Willie Whitelaw, members of E(LA) and E(LF) and Sir Robert Armstrong.

J. L.
W. S.

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CHIEF SECRETARY	
REC	29 APR 1986
Mr James	
- Mr Sir Peter Middle	
Mr Butler McAnson	
Mr Bruce Mc Gray	
Mr Pirie McA Allen	

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

28 April 1986

John MacGregor

HANDLING OF THE 1986 PUBLIC EXPENDITURE ROUND

I have received a copy of Keith's letter to you of 8 April about consideration of individual local authority services in the coming E(LA) round, and of your reply of 18 April.

I certainly have sympathy with Keith's view that information on individual services should be available during the E(LA) round to illuminate our discussion of expenditure and grant aggregates. I intend to provide colleagues with a breakdown of service spending for E(LA)'s first meeting on this in May.

I am less clear, however, given the extent to which we can actually control overall local spending and its component parts, that we should be seeking, as Keith suggests, to work from a consideration of individual services towards the total of LA current provision. For similar reasons, although I strongly favour moves towards achieving better value for money in local government, I do think we must be careful not to get bogged down in E(LA) in consideration of output and performance measures and targets. We could so easily involve ourselves in a great deal of work which was nullified by local government's own decisions.

I would, however, be happy to consider this further in E(LA), following discussions between officials as you suggest. We must of course begin our discussions in E(LA) within a very few weeks now if we are to keep on course for a November settlement.

I am copying this letter to Willie Whitelaw, Keith Joseph and the other members of E(LA) and to Sir Robert Armstrong.

John MacGregor
Kenneth Baker

KENNETH BAKER

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2 MARSHAM STREET

LONDON SW1P 3EB

01-212 3434

My ref: B/PSO/13645/86

Your ref: B/PSO/13768/86

Prime Minister 2

My letter regarding your
concern seems (surprisingly) to
have crossed with this. The reply
should give information to decide
whether the timetable here - X below -
is quick enough.

28 April 1986

Jim Mann.

DLS 29/4.

Thank you for your letter of 8 April about local authority
deferred purchase schemes. I have also seen Willie Whitelaw's
letter of 11 April, and your reply of 16 April.

I share your concern about the use of deferred purchase schemes
by authorities who are prepared to mortgage their future capital
programme for short-term advantage, and I incline to your
view that legislation is required to stop such abuses. On
the other hand, we have to bear in mind that a good many moderate
authorities, including some of our own supporters, have found
schemes of the same form, but very much more modest in scale,
a convenient way of securing a one-off project which is large
in relation to their capital allocations for a single year.
We shall also have to ensure that any legislation does not
impede normal contractual practices, under which final payments
may be made a long time after completion of the works.

As to timing, I note what Willie says, and I see that you
accept it. I would have wanted in any case to resist the idea
of legislation this session. Restraint on deferred purchase
is one of the ideas put forward in our consultation paper
on the future of the control system. As soon as we have analysed
the responses to that consultation, I shall be bringing forward
to colleagues my proposals for the timing and content of legislation.
Action on a particular aspect in advance of that wider consultation
would be premature.

This does not necessarily mean allowing deferred purchase
to continue until we can get Royal Assent to a Bill next session.
If we decide to legislate to stop such schemes, we could backdate
that provision to the date of an announcement, which could
be before the Summer Recess. We took just such steps to block
major mortgage refinancing deals last summer.

/ I am copying this to the Prime Minister, Willie Whitelaw,
the other members of E(LA) and Sir Robert Armstrong.

Kenneth Baker

KENNETH BAKER

Local Govt: Relations

PE 29



*As you know, I was very doubtful about officials original intentions, and do not intend to be late's 2 MARSHAM STREET LONDON SW1P 3EB
on this. If you tried to find out the basis of the original advice I could send you a copy. My ref: Jingley Politics*



CHIEF SECRETARY	
REC.	27 MAR 1986
ACTION	Mr Pirie
COPIES TO	CX FST MST
	Mr Butler Mr Anson
	Mr March Mr Gilmore
	Mr James Mr Schile

- Mr Turnbull
- Ms Boys
- Mr Burr
- Mr Gray
- Mr Instore
- Mr Kerolth
- Mr M Williams
- Mr Perfect
- Mr Lord

Your ref: 25 March 1986 98/3

In Mm

LOCAL GOVERNMENT BILL 1986/7

Thank you for your letter of 10 March about the Local Government Bill proposed for next session.

It would certainly simplify our PESC discussions if we were certain to have a new system in place for 1987/8 to control local authority capital expenditure, but we cannot count on it. The decision at E(LF) on 4 November (E(LF)(85)4th meeting) left the matter open. Before deciding to press ahead we must consider the response to the consultation process which is taking place at present. Comments have been invited on the capital chapter of the Green Paper and on the Consultation Paper by 14 April. I will report to colleagues on the outcome as soon as possible after that. But even assuming that we then confirm our decision to legislate on capital next session, we shall need to keep our options open for a while on the date of implementation.

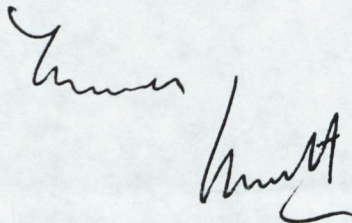
If there is to be legislation in time for 1987/8 it will of course have to be introduced at the very start of the next session. Pending a final decision, my officials are working on the preparation of Instructions to Counsel on the assumption that we will need a Bill ready at that time. But the Bill is also to cover issues on local authority competition, and now the loose ends from this session's Local Government Bill. The time available for drafting will be very tight.

We then have to cope with the Parliamentary timetable. E(LF) was concerned that we could not hope for Royal Assent more than marginally in advance of the start of the financial year, so that we would have to prepare capital allocations and notify them to authorities before Royal Assent. Experience with this session's Local Government Bill suggests that we might easily not get Royal Assent before the start of the year at all. This year's Bill is a lot shorter and no more controversial than I would expect next year's to be. In view of the possibility that we may fail to pass next year's Bill by 31 March 1987, we shall probably have to prepare a set of old-system allocations in readiness for issue at the last minute. X

The prudent course is to base our PESC planning on a continuation of the present system, and to consider the carry-across into a new system later if it seems relevant. We shall need very similar levels of provision either way, because authorities' spending needs will not be changed by introducing a new system.

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I am copying this, as you did, to John Biffen, John Wakeham and Bertie Denham. I am also copying it, with a copy of your letter, to other Ministers with an interest: Willie Whitelaw, Douglas Hurd, Keith Joseph, Nicholas Edwards, Norman Fowler, Norman Tebbit, Michael Jopling, Nicholas Ridley, David Young, Paul Channon and Richard Luce, and to Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'Kenneth Baker', written in dark ink.

KENNETH BAKER