



Local Govt
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The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Prime Minister (2)

Mr Younger argues

for end-year flexibility.

Ms 17/2
16 February 1983

Dear Leon,

LOCAL AUTHORITY CAPITAL SPENDING

I have followed with interest the recent exchanges on this issue, starting with the Policy Unit's note of 22 October and continuing with Michael Heseltine's minute to the Prime Minister of 10 December.

The position in Scotland has been rather different in that, while we have problems over current expenditure, our authorities are not underspending their capital allocations as much as in England. I believe an important factor is that our block allocation system (which is broadly similar to the English one) has been running since 1977. Our authorities have grown accustomed to working within it (and it represented a substantial advance over the previous system of individual project control) and even the move to net allocations in 1981-82 does not seem to have disturbed the general picture. Underspending is of course always a feature of capital programmes in that capital projects tend to run behind rather than ahead of schedule. But apart from that, our authorities seem quite willing to spend their allocations and receipts; and they consistently ask for more.

The issue of forward "guidelines" for years 2 and 3 concurrently with capital allocations for year 1 is an established and important element of our system. We require authorities to avoid incurring forward commitments which would take them in excess of their "guideline" allocations for these years and we request that they let us know before going above 80% of these figures. In practice we find that this allows the authorities to plan their forward programmes with a fair degree of confidence without prejudicing unduly our scope for adjusting the provisional allocation figures at final allocation stage.

I also believe in issuing as much of the resources as possible at the beginning of each year and not holding back reserves for possible supplementary allocations later on. That practice only encourages authorities to shorten their time horizons in what should be a long-term planning process.

The greatest problem we face in attempting to achieve efficient and well-planned use of resources is the absence of any end-year flexibility in the national cash limits. Capital programmes are subject to external influences which can throw them off course for long periods. We find that the "annuality" rule applying to national cash limits acts as a barrier to the efficient use of resources. We are able to offer individual authorities a measure of end-year flexibility on their individual programmes, but this is limited by the need to control the overall cash limit tightly. Both the Scottish Construction Industry Group and the local authorities have been urging us strongly to increase end-year flexibility at local level and this could be done if cash limit annuality were relaxed.

We discussed collectively the question of end-year flexibility of cash limits last year and are to do so again this coming year. I am in no doubt that the introduction of greater flexibility would ease considerably the problems identified in the course of this correspondence.

I am copying this letter to the recipients of Michael Heseltine's minute of 10 December.

Yours
wv,
George

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