

ceby



The Rt Hon John Major MP
 Chief Secretary
 HM Treasury
 Parliament Street
 LONDON
 SW1P 3AG

2 MARSHAM STREET
 LONDON SW1P 3EB
 01-212 3434

My ref:

Your ref:

28 October 1987

NBM

Dear John

LOCAL AUTHORITY CAPITAL SPENDING, 1987/88

Thank you for your letter of 23 October. I am disappointed that you feel able to offer only £75m additional allocations for all services, when the underspend on the cash limit is expected to be some ten times as large. My proposals were framed to meet just the criteria you suggest: to be worthwhile in themselves, to lead to cost-effective expenditure in the current financial year and to avoid pressure on spending in later years.

I am conscious, however, that time is passing, and that to secure cost-effective spending we must make an announcement very soon. For the sake of an agreement, I hope that you will be prepared to increase your suggestion of £75m for all services by the amount of extra allocations that will be required to fulfil the Government's undertaking in respect of damage caused by the recent storm. Clearly, we should not issue allocations except where the expenditure is (a) unavoidable (b) of a capital nature and (c) not capable of being met from other sources. Much of the authorities' immediate expenditure on the storm will be revenue rather than capital expenditure and will receive support under the "Bellwin" scheme; and to the extent that they have prudently insured their property, the insurance payments will meet the cost without any need for additional capital allocations and borrowing. However, we all accept that some additional allocations will be required, and we cannot afford to delay allocation of the £75m whilst we wait, perhaps many weeks, before establishing the precise size of the storm damage requirement.

On the distribution of the £75m allocations between services, I would reluctantly be prepared to accept a basis of allocation pro rata to net provision, although this disadvantages the services for which I am responsible by comparison with others. I would propose to use the share which would otherwise fall to the Other Services block for the benefit of Housing, giving it a total of £44.7m, as compared with £18.9m for Transport, £9.4m for Education and £2.0m for Personal Social Services.

I hope that, for the sake of an early agreement, you and other colleagues concerned will be able to agree to this proposal. If so, I shall make an early announcement, simultaneously with the release to local authorities of the forecast for the year's underspending based on expenditure in the first quarter. My officials will consult yours about the precise details.



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Separately, your letter crossed with mine of 21 October on end-year flexibility. I shall await a further reply from you on this issue.

I am copying this letter as before to the Prime Minister, Members of E(LA) and Sir Robert Armstrong.

NICHOLAS RIDLEY

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C.B.G.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

N.B.M.

Dear Nick,

2 November 1987

LOCAL AUTHORITY CAPITAL SPENDING *to open*

Your letter of 28 October sets out proposals for issuing extra allocations this year to help offset the emerging underspend on DoE/LA1.

You suggest £75 million allocations be distributed pro rata to net provision and that the storm costs be considered separately. I understand this approach is acceptable to Kenneth Baker whose letter I have seen, Paul Channon and John Moore. On that basis, I am prepared to accept your proposals.

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

Yours Ever,
John

JOHN MAJOR

cc/BG



Treasury Chambers, Parliament Street, SW1P 3AG

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

23 October 1987

Dear Nick,

NSM.

LOCAL AUTHORITY CAPITAL SPENDING 1987-88

You wrote to me on 6 October proposing that housing allocations be increased in response to the emerging underspend on local authority capital spending in England. Paul Channon's and Kenneth Baker's letters of 8 October and 16 October also bid for further allocations for their programmes.

Gross local authority capital spending in England is still expected to be £370 million higher this year than allowed for in the 1987 Public Expenditure White Paper. The emerging underspend is entirely due to receipts being more than £1 billion higher than forecast. A substantial proportion of those receipts reflects sale and leaseback deals and a switch from public to private financing of council house sales.

Experience of previous attempts to stimulate spending in-year has been very unsatisfactory. The last time we issued extra allocations to reduce a prospective underspend was in 1983-84. In the event an overspend of £415 million emerged. I do not want to risk repeating that episode. Since 1983-84 there has been further overspending in 1984-85 (£1,072 million), 1985-86 (£996 million) and 1986-87 (£18 million). It proved impossible to take offsetting in-year action to avert these overspends and no cash limit penalties were subsequently imposed.

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In view of this history and the nature of the receipts causing the underspend you will appreciate that I am reluctant to take steps that would increase gross spending even further. Issuing substantial further allocations this year would be harmful for two reasons. First, there is a danger that the allocations would to a significant degree be used instead of spending power from receipts, so increasing the cascade of accumulated receipts carried forward into future years. This could lead to renewed overspending next year. Secondly, it would be interpreted as a signal that we were relaxing our control of local authority capital spending.

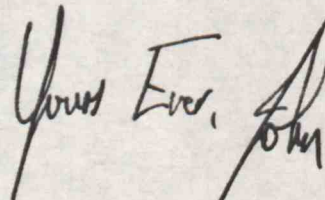
In reacting to an emerging underspend this year which is due to higher receipts we need to take account of the fact that receipts not spent this year are not lost, but generate spending power in later years. Although, for any given level of provision in 1988-89, higher accumulated receipts are offset by lower allocations, the outcome of the Survey has been that, overall, allocations will be higher than in 1987-88, thereby in effect allowing higher spending power of accumulated receipts to be reflected in full in gross provision. In these circumstances, there would be a double benefit if higher receipts this year produced more gross spending this year and next.

Thus I do not accept that there is any presumption that a shortfall resulting from higher receipts should be offset. Nevertheless, I am prepared to look at proposals on their merits provided we can be sure that the money will be spent this year and provided it will reduce pressure for spending in later years. On this basis, I am prepared to consider a package of up to £75 million for all the services combined. If you and colleagues agree I suggest we ask officials to recommend how such a package might be constructed.

If immediate capital expenditure is needed to make good the damage caused by last week's storm, that could be one of the uses to which the £75 million is put.

I could not however go beyond that; and in particular, bearing in mind the absence of cash limit penalties for recent overspends, I do not believe it would be appropriate to allow the prospective underspend to be carried into future years through end-year flexibility.

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

Yours Ever, 

JOHN MAJOR



CCB



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

C/PSO/10270/87

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

NBM

- 8 OCT 1987

Dear John,

will request if required

LOCAL AUTHORITY CAPITAL ALLOCATIONS

I have seen Nicholas Ridley's letter of 6 October. Similar action to make additional local transport allocations for 1987/8 is equally justified on the evidence to which he refers. The figures, which I understand officials have agreed, forecast a transport underspend of over £120 million. I recognise that £60m of this is not a real underspend because of the element of transport provision included this year simply to increase the capital allocations.

Unfortunately it is already so late in the year that I cannot expect highway authorities to make use of all the extra £60m. of allocations that would be justified. It is difficult to reverse very quickly the cutback in new road schemes starts which local authorities have made in response to the reduced allocations. Road investment also tends to be "front-loaded" in the year because of the effect of adverse weather conditions in the winter months. For these reasons I do not think authorities could make good use of more than about £30 million extra allocations at this late stage. To a large degree the ground lost on the local roads programme by the squeeze in this year's allocations cannot now be regained.

I have asked my officials to undertake a rapid "trawl" to identify cases where authorities could make good use of additional allocations, but they need to be able to contact local authorities quickly for this purpose. If it is to be effective we need, as Nicholas says, to be able to make them as soon as possible. I would therefore be grateful for your early agreement to announcing additional allocations for 1987/8 up to a ceiling of £30m.

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

ms,
Paul

PAUL CHANNON