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PP 27

Prime Minister

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My ref:
Your ref:

Dear John,

see p 24

11 January 1985

LOCAL AUTHORITY CAPITAL EXPENDITURE IN ENGLAND AND WALES, 1985/86

Following the statements which Nick Edwards and I made on 18 December, and the emergency debate the following day, we now have to consider the timetable for handling the regulations to give effect to the reductions, from 1 April this year, in the "prescribed proportion" of their capital receipts which local authorities may use for capital expenditure. We have already sent you a "holding" line to take in answer to business questions.

In the past, none of the four sets of regulations dealing with capital expenditure under the Local Government Planning and Land Act 1980 have been prayed against, although they are subject to negative resolution in either House. But since these regulations are so controversial, we can be sure that they will be prayed against, at least in the Commons, during the 40 day period and will need to be debated. Subject to your views, we shall need to offer more than a 90-minute debate from 10pm. I suggest that we might consider a debate running from 7pm to 11.30pm.

On the timetable, we have in the past found it sufficient to lay the regulations during the second week in March, so that the 40 day period during which they lie before Parliament overlapped with the date on which they came into effect. Again, that would not be appropriate on this occasion. We must in my view lay the regulations in time for the 40 day period and the debate to take place before 1 April. But equally, we do not want to be rushed into laying or debating the orders.

Before the regulations are laid, you and the Chief Whip will wish to assess the views of our supporters following the Christmas recess. Whilst that is being done, I will want to consult the English local authority associations about the precise terms of the regulations. Nick Edwards will no doubt consider separately the position in Wales, to which the regulations will also apply. In the course of consultation, I shall make it clear that the Government stands firmly by the 18 December statements; the consultations will be concerned only with the fine print. Such consultations are very necessary in view of the great hostility shown already by local government to our proposals. I intend to meet the local authority associations shortly to give them an opportunity to express their concern.

This consultation will take up to four weeks. I would therefore propose to lay the orders by mid-February.

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The debate could procedurally follow at any time after the regulations are prayed against. No doubt you and John Cope will want to consider the precise timing. One possibility might be to delay the debate until after the Budget to demonstrate to our supporters the benefits of restricting public expenditure. But we should clearly need to have the debate before the end of March.

Meanwhile it may be helpful if you see the line we are taking in reply to correspondence, from MPs, local authorities and others on capital expenditure. This is set out in the enclosed note.

I am copying this letter to Willie Whitelaw, Nigel Lawson, Keith Joseph, Nick Edwards, Norman Fowler, Nicholas Ridley, Peter Rees, John Cope and Bertie Denham, and to the Prime Minister.

You ever
Pat

PATRICK JENKIN

The Rt Hon John Biffen MP

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In addition to putting tight limits on the total amount being allocated nationally across all services, we have had to reduce the proportion of capital receipts which authorities may add to their allocations at local discretion.

These are certainly tough steps and I well understand why they are unwelcome to local authorities, but they are no more than is necessary to deliver the level of capital spending by local authorities as a whole next year provided for in the public expenditure plans announced in the Chancellor's Autumn Statement. Those plans allow for authorities in England to spend £4bn on capital next year - a very considerable sum by any standards. Autumn Statement was expressly approved by the House of Commons on 6 December, and the 18 December announcements imply no further cut.

It is vitally important that we keep the total of public expenditure within the figures provided - that is central to the Government's economic strategy. If public expenditure is allowed to rise significantly above those figures, the public sector will absorb too big a share of available finance, interest rates will rise and growth and investment in the private sector will be impeded. Investment in economic recovery is proceeding apace and is expected to gather further momentum in the year ahead. In the long run, it will help no-one if this recovery is interrupted.

It has been argued that local authority capital spending can take place without affecting the economic recovery where it is simply an authority spending its own resources from capital receipts and elsewhere. But this argument ignores the financial effects. Authorities do not have money sitting idle to be turned into capital spending. Capital receipts which are not spent immediately are mostly used to reduce borrowing, so that in the year in which they arise these receipts diminish public borrowing. But when the receipts come to be spent they must be replaced by fresh borrowing. The external debt of English local authorities is already about £30bn; without the £5bn of accumulated receipts it would have been much higher. We are not in any sense depriving authorities of their receipts, but simply requiring their use to be spread over time to reduce the economic impact.

Our proposals for 1985/86 are therefore essential in order to ensure that capital spending does not exceed the public expenditure plans, and that the level of public sector borrowing is kept on track. For the longer term; we clearly need to look again at the system and at possible improvements; we want to achieve a better match between the Government's duty to control the overall level of capital spending and borrowing in the national economy and the need at local level for a firm basis for future planning. We have already started consultations with the local authority associations on this.

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