



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON

Prime Minister (1)

Agree no reply to

Councillor Sewel?

22 November 1982

MS 23/11

Dear Michael

Yes ms

GROUP OF EIGHT

In your letter of 10 November you asked for a draft reply to Councillor J B Sewel's letter to the Prime Minister of 12 November, if we judged it necessary to respond. My Secretary of State doubts the need.

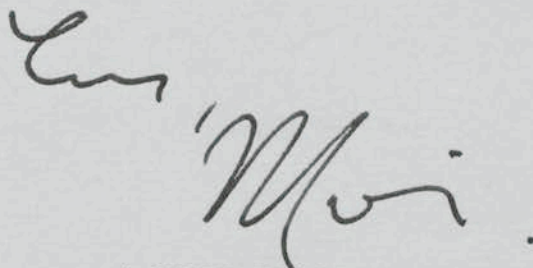
In his reply to the Prime Minister's letter of 2 November Councillor Sewel makes three complaints: first, that too little end-year flexibility is allowed to local authorities in Scotland on their capital allocations; secondly, that a major obstacle to capital expenditure is inadequate provision by central Government for the revenue expenditure consequences and thirdly, that the complex links in Housing programmes between capital resources, house-sales and rate-fund contributions make it difficult for authorities to plan ahead and often divert resources away from where they are needed.

End-year flexibility is the subject of frequent discussions with the Convention of Scottish Local Authorities. From the Scottish Office point of view more end-year flexibility at local level with the absence of any in the national cash limit increases the risk of a cash-limit breach. Until there is any change at national level, we judge the present carry-forward allowances to be the best compromise. The second point has some validity; the need for control over local authority current expenditure is not over-ridden by the desirability of increasing capital expenditure. On the other hand, Scottish local authorities' excess revenue expenditure is due even more to other factors. In addition, many areas of capital expenditure need not have substantial revenue consequences. On the third matter, Councillor Sewel is criticising a system which has operated for two years already, and is to be operated again, in an updated form, next year. We believe it will be preferable to restate the justification for the system in the context of next year's scheme when we are ready (shortly) to announce it.

The first matter does not merit the Prime Minister's intervention; no concession is possible on the second and third matters where respectively the need to limit current expenditure and the pursuit of the Government's housing policy are paramount.

Although the President of the Convention has publicised his reply to the Prime Minister, my Secretary of State thinks there is no advantage in promoting correspondence between the Prime Minister and Councillor Sewel on these subjects and recommends that the matter rest on your acknowledgement. Mr Younger and Mr Allan Stewart will undoubtedly deal with Councillor Sewel's points at the RSG and Housing grant settlement meetings in December.

I am copying this reply to John Gieve, Treasury.

A handwritten signature in dark ink, appearing to read 'A. Muir Russell', written in a cursive style.

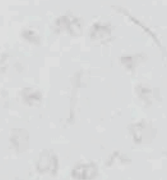
A MUIR RUSSELL
Private Secretary

Prime Minister

Group of eight

August 1982

1982





10 DOWNING STREET

From the Private Secretary

24 November 1982

GROUP OF EIGHT: COUNCILLOR SEWEL'S LETTER

Thank you for your letter of 22 November, in which you let me know that Mr. Younger recommended to the Prime Minister that no substantive reply should be sent to Councillor Sewel.

The Prime Minister accepts this advice.

I am sending a copy of this letter to John Gieve (Chief Secretary's Office, H.M. Treasury).

M. C. SCHOLAR

Muir Russell, Esq.,
Scottish Office.

PR



CC 080

HU
Prime Minister

10 DOWNING STREET

From the Private Secretary

16 November 1982

I enclose a copy of a letter which the Prime Minister has received from Mr. J.B. Sewel about capital underspend by Scottish local authorities.

I have acknowledged this letter. If you judge a reply necessary, I should be grateful if you could let me have a draft reply for the Prime Minister's signature by Tuesday 23 November.

I am sending a copy of this letter and enclosure to John Gieve (Chief Secretary's Office, H.M. Treasury).

M. D. SCHOLAR

Muir Russell, Esq.,
Scottish Office,

HL

16 November 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 12 November which I will place before her at the earliest opportunity.

MICHAEL SCHOLAR

J.B. Sewel, Esq.

Convention of Scottish Local Authorities

Prime Minister (2)

CF

16 Moray Place
Edinburgh
EH3 6BL
Telephone No. 031-225 1626/7
Graham H. Speirs M.A. L.L.B.
Secretary & Treasurer

I have

acknowledged, and

asked for Mr

The Rt Hon Margaret Thatcher MP Younger's
Prime Minister
10 Downing Street
LONDON SW1

Contact:

Your Reference:

Our Reference: P/6/12

Date: 12th November 1982

advise on whether

you should reply.

Ms 16/11

Dear Prime Minister

Thank you for your letter dated the 2nd instant requesting the assistance of the Convention in encouraging member authorities to make full use of the capital allocations granted to them. I may say that I share the concern of the Group of Eight at the low level of activity in the construction industry. Unemployment in Scotland is at a particularly high level and I share the Government's anxiety to ensure that employment opportunities are available in the construction industry and elsewhere.

In your letter you refer to 1981/82, 1982/83, and later years. It is true that in 1981/82 there was underspending by Scottish local authorities on capital account, not least because of the bad winter. The need to be able to plan capital expenditure with confidence over an extended period and to take account of disruptions caused by particularly bad weather makes it essential to modify the current arrangements for controlling capital expenditure, so as to increase the proportion of the allocation which can be carried over from one year to another. We have repeatedly made this point to the Secretary of State but he has, so far, felt unable to accept our advice.

In relation to 1982/83 you expressed the hope that Scottish local authorities will do all they can to avoid underspending. Last Friday Mr J Allan Stewart, the Minister for Home Affairs and the Environment in the Scottish Office, stated "...Unlike their English counterparts they have a good record of using up their existing capital allocations and, while they are not therefore incurring the substantial underspends being experienced south of the Border, I have been able to authorise some limited additional expenditure on the basis of present expenditure trends." Not only did Mr Stewart indicate that underspending was not a problem this year in Scottish authorities, but he went further and announced an increased allocation of £17M.

In relation to your reference to later years, I can assure you that there is no shortage of essential and highly desirable capital projects which local authorities would like to see proceed, but I must draw your attention to the very point to which you yourself have referred, the revenue consequences of capital expenditure. Capital expenditure projects /

projects initiated one financial year will have direct revenue consequences on future financial years. Scottish local authorities are presently making capital expenditure decisions within the context that in order to meet revenue expenditure guidelines a cut of 9.6% in real terms would have been made in 1983/84 compared with 1982/83. If downward pressure on revenue expenditure continues, this will inevitably affect the ability of local authorities over the longer term to maintain capital expenditure programmes.

I would specifically bring to your attention difficulties which have arisen in relation to housing capital expenditure. Indicative housing capital allocations are being modified by the Scottish Office in light of the individual authority's rent performance and in light of the capital receipts an authority obtains from the sale of Council houses. The inclusion of these new factors not only makes it more difficult for authorities to plan expenditure programmes but by eroding the link between housing need and the actual allocation received the total level of capital investment in housing is being unnecessarily depressed. The construction industry would benefit and local authorities experiencing severe housing problems would be helped if capital allocations more truly reflected the need of particular authorities to provide new housing or improve the existing housing stock.

In light of your request for assistance in encouraging local authorities to make full use of the resources made available to them, I am arranging for your letter to me and for this reply to be circulated to the member authorities of the Convention.

Yours sincerely

J. R. Sewel

President