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P.01387

PRIME MINISTER

Local Authority Capital Expenditure

BACKGROUND

Estimates before the Summer Recess suggested that the main cash limit on local authority capital expenditure in England in 1983-84 had been overspent by £368 million, and that the corresponding cash limit for 1984-85 might be overspent by between £350 million and £1250 million. There was also estimated to have been a small overspend by Welsh local authorities in 1983-84; the forecast for 1984-85 was for an overspend of the order of £50 million. It was not expected that there would be any significant overspending in Scotland.

FLAG A 2. E(A) considered the situation on 10 July (E(A)(84)18th Meeting, Item 1) and agreed that it was essential to take action to curb the prospective overspending in England and Wales in 1984-85: the aim should be to avert it entirely; but it would be right to accept a modest overspend if this was necessary in order to maintain a reasonable degree of flexibility to deal with hard cases. Any action would have to be voluntary and couched in the form of a request to local authorities for restraint. For the future, officials should advise on how the monitoring and control systems in England and Wales could be improved.

3. On 18 July the Secretary of State for the Environment announced that the Government had decided that on the basis of current information it would be wrong to ask for a complete halt to new capital spending commitments in 1984-85. Instead, local authorities were being asked to restrain their capital spending to the level of capital



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allocations made to them for 1984-85, plus a proportion of the capital receipts arising in the current year. If they were already committed by contract to expenditure higher than that they should enter into no further commitments. (The main effect of this was to ask local authorities not to use their ability to increase capital allocations by spending accumulated receipts from past years: see paragraphs 5 and 6 of the brief I submitted for the previous meeting of the Sub-Committee (copy attached for ease of reference)).

FLAG B

4. Although the arrangements rested on voluntary co-operation, Mr Jenkin announced that for 1985-86 he would have regard to the extent to which authorities responded to the Government's request: if necessary, he would use his statutory powers to reduce the total expenditure which local authorities collectively or individually could incur in that year. He also announced that the overspend in 1983-84 would be taken into account when setting the cash limit for 1985-86.

5. The Parliamentary Under Secretary for State for Wales (Mr Wyn Roberts) made a parallel announcement about Wales on the same day.

Proposals for 1984-85

FLAG C

6. In his minute of 11 September to you, the Chief Secretary, Treasury says that the latest returns from local authorities show that overspending in 1984-85 is likely to reach some £500 million (in round terms, £450 million in England and £50 million in Wales). Although there is uncertainty about the figures, this represents an unacceptable potential addition to expenditure. The Chief Secretary therefore proposes that the Secretaries of State for the Environment and for Wales should ask local authorities not to enter into any further commitments in 1984-85.

FLAG D 7. In his minute of 14 September, the Secretary of State for the Environment argues that such a moratorium would be politically very controversial, and that its likely effects on expenditure (which Mr Jenkin suggests could be less than £100 million) are too small to justify the political damage it would do. He suggests that instead the spending curbs announced on 18 July should be maintained, but reinforced by a campaign to persuade local authorities to maximise their capital receipts. Because the cash limit is net of such receipts, this would help reduce the prospective overspend.

FLAG E 8. The minute of 14 September from the Secretary of State for Wales takes a similar line. Mr Edwards argues that the problem in Wales is one of inadequate receipts, not excessive expenditure. Moreover, a moratorium on expenditure commitments would have no effect, since existing commitments by Welsh local authorities are already equal to their expenditure allocations plus the prescribed proportion of receipts in the current year, the amount to which local authorities were asked to confine themselves by the announcement on 18 July.

Proposals for 1985-86

FLAG F 9. There has also been correspondence about 1985-86. The Chief Secretary, Treasury has proposed (his letter of 2 August, copied to you) that the full overspend in 1983-84 should be deducted from the cash limits for 1985-86, the reduction being distributed according to each programme's share in the 1985-86 base-line. His minute of 11 September seems to assume that this will be agreed; it also envisages that any overspend in 1984-85 should also be recovered in 1985-86. These views have been challenged on two grounds.

(i) Some Ministers have argued that the effects on programmes of offsetting in 1985-86 the full amount of overspending in 1983-84 and 1984-85 will be too severe (possibly taking £800-£900 million out of a baseline of less than £2.5 billion).

eg Sir K. Joseph.

(ii) Some Ministers have argued that the proposed method of allocation is unfair since it takes no account of the share of each service in the 1983-84 overspend.

Most spending Ministers seem to consider that the 'clawback' proposed by the Chief Secretary should be discussed, at least in the first instance, in the bilateral discussions between the Chief Secretary and spending Ministers which are now in progress.

MAIN ISSUES

10. The issues before the Sub-Committee are as follows.

(i) Should the Government ask local authorities to introduce a (voluntary) moratorium on commitments to capital expenditure for the rest of 1984-85?

(ii) Should it be agreed now that the 1983-84 ^{and 1984-85} over-spends should be clawed back from the provision for 1985-86?

1984-85

11. The proposals are set out rather summarily in the papers, and leave one or two important points of detail unclear. It might be as well to confirm the following two points at the outset of the discussion.

(i) Our understanding is that the Chief Secretary's proposals cover only the two cash limit blocks known as DOE/LA1 and WO/LA1. The implication of this is that

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they do not extend to capital expenditure by local authorities on police, the courts, or probation, which are covered by a third block known as HO/LA1, for which the Home Secretary is responsible.

(ii) Our understanding is that, as before, any moratorium would be voluntary: there is no suggestion of compulsion (which indeed would require fresh legislation).

12. In deciding whether to announce a voluntary moratorium in England, Ministers will wish to consider the following.

(a) The Government announced its decision on 18 July. Although the possibility of further action was explicitly kept open (Commons OR, Col 336), it might seem precipitate to take such action after only two months.

(b) The latest returns do not suggest that the situation is materially worse than that assumed when the July decisions were taken (overspend now thought to be £500 million as against £350-£1250 million expected last July). 75-750

(c) The effect on expenditure in 1984-85 of a moratorium announced now is uncertain, and might well be small. Paragraph 3 of Mr Jenkin's minute of 14 September gives a number of reasons why he thinks it might be 'less than £100 million'.

(d) In July the Sub-Committee thought that a modest overspend was acceptable in the interests of flexibility.

On the other hand:

(e) If action is to be effective it must be taken soon. Even now, the bulk of expenditure in 1984-85 is no doubt covered by existing commitments.

(f) It is in fact clear that it will not be easy to reduce allocations in 1985-86 to offset the full amount

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of overspending in 1983-84 and 1984-85. One argument in favour of a moratorium now is that it would be likely to reduce commitments resulting in expenditure in 1985-86 and so increase the Government's room for manoeuvre in that year.

13. The situation in Wales is rather different. As existing commitments are equal to allocations plus the prescribed proportion of receipts in 1984-85, a moratorium as proposed by the Chief Secretary could not affect expenditure in the current year. The only reasons for a moratorium in Wales would be:

(a) if it were thought essential to take the same action in England and in Wales; or

(b) in order to reduce expenditure falling in 1985-86 (see paragraph 12^(d) above).
f

1985-86

14. It is not easy to see how E(A) can decide now that overspending in 1983-84 and 1984-85 should be fully offset in 1985-86: spending Ministers will no doubt need to discuss the implications for their services with the Chief Secretary (and Ministers collectively may well need to consider some of those implications); there is an unresolved disagreement among Ministers about how any offsets should be allocated between programmes; and there is a further complicated argument between the Department of the Environment, the Welsh Office and the Treasury about how any reductions in English programmes should affect the Welsh Office block budget. These issues could not be resolved tomorrow. Equally, you will no doubt wish to avoid creating any presumption that overspending in 1983-84 and 1984-85 should not be fully offset.

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Announcements

15. It is common ground between the Chief Secretary, the Secretary of State for the Environment, and the Secretary of State for Wales that some action must be taken: the two Secretaries of State agree that local authorities should at least be asked to maximise receipts. The Sub-Committee will wish to consider whether whatever action is agreed in respect of 1984-85 should be announced to the media, presumably by means of a press release. Since any action that might be agreed in respect of 1985-86 would relate to the conduct of the public expenditure survey, the question of public announcements does not arise here.

HANDLING

16. You will wish to invite the Chief Secretary, Treasury to open the discussion, and the Secretary of State for the Environment and Mr Stradling Thomas (in the absence of the Secretary of State for Wales) to reply. The Chancellor of the Exchequer will wish to comment on the public expenditure situation in the context of the economic prospects. All Ministers with responsibilities for local authority capital expenditure - Home Secretary, Secretaries of State for Education and Science, the Social Services, Trade and Industry, Minister of Agriculture, Fisheries and Food, and the Secretary of State for Transport - will wish to comment.

17. The discussion is likely to concentrate on 1984-85 rather than the Chief Secretary's specific proposals for 1985-86. However, you will wish the meeting to bear in mind that action taken in 1984-85 will presumably have implications for expenditure in 1985-86.

CONCLUSIONS

18. You will wish the Sub-Committee to reach conclusions on the following.



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(i) Should the Government ask local authorities in England and Wales to enter into no further commitments to capital expenditure in 1984-85? Or should it confine itself to encouraging local authorities to maximise capital receipts?

(ii) Should any decision be taken at this stage about the extent to which excessive local authority capital expenditure in 1983-84 and 1984-85 should be clawed back from provisions in 1985-86?

(iii) How should the Government's decisions be made known?

PLG

P L GREGSON
Cabinet Office.
17 September 1984

PRIME MINISTER

I believe that if the verdict of E(A) goes against Mr. Jenkin, other than by a wide margin, he will seek leave to appeal to the full Cabinet, though with invitees adding to the already large size of E(A) Cabinet won't be much larger.

As Mr. Jenkin is on tour this Thursday it would have to be the 27th September meeting, for which the Chancellor will be back.

The last occasion on which a Minister appealed to Cabinet was Mr. Jopling on milk prices.

Sir Keith Joseph has now commented in writing, supporting a moratorium this year but opposing clawback in 1985-86.

Policy Unit have provided a note setting out the public expenditure background.

*Duty Clerk.
pp. AT.*

17 September 1984

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Prime Minister
Su Keele supports a moratorium
this year but opposes clawback for
1985-86.

CENo.
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AT

17/9

PRIME MINISTER
LOCAL AUTHORITY CAPITAL EXPENDITURE

1. *copy folder* The Chief Secretary sent me a copy of his minute to you of 11 September proposing the early announcement of a moratorium on local authority capital expenditure for the rest of the financial year and the clawback of any eventual 1984-85 overspend in a later year. I have also seen the minute dated 14 September from the Secretary of State for the Environment.
2. The control system which we introduced in 1980 has shown itself to be seriously flawed: the overall cash limit can be breached without any breach of spending limits by any individual local authority. In such circumstances where the actions of a local authority trying to cooperate with government policy have no visible relationship with the cash limit, it seems to me to be perverse and unfair to apply the normal rules for clawback. These make excellent sense where the overspender is himself able to judge the effect of his actions, but not where the cash limit applies to a large number of independent agents, none of whom know what the others are doing to affect that limit. We would do better for the future to go for a tough and effective control system for 1985/86 and beyond that works.
3. I thus continue to be opposed to the application of clawback. Any further curtailment of our planned investment in education would seriously undermine my efforts to secure greater efficiency through the removal of surplus school places, necessary both on financial and educational grounds, and would prevent the re-equipment of colleges and polytechnics to secure the switch to engineering and developments in information technology essential to industry.
4. For the current year I agree with the Chief Secretary that we must do all in our power to limit calls on expenditure. Although we all recognise that the Chief Secretary's proposed

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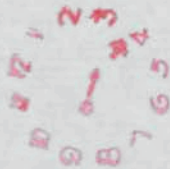
moratorium will give local authorities further cause for complaint, I have come to the view that we should be prepared to adopt it, subject to two provisos. The first is that it should be absolutely clear that there can be no question of trenching on statutory liabilities and that expenditure which an authority is required to incur in order to satisfy statutory obligations would continue to be exempt. The second is that in reaching the decision all concerned should recognise the limitations on the likely effectiveness of his proposal in practice.

5. I am copying this minute to the other members of E(A), Leon Brittan and Norman Fowler, and to Sir Robert Armstrong.

lg

17 September 1984

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10 DOWNING STREET

From the Private Secretary

Prime Minister

I believe that if the verdict of E(A) goes against Mr Jenkin, other than by a wide margin, he will seek leave to appeal to the full Cabinet, though with invites adding to the already large size of E(A) Cabinet will be much larger.

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The last occasion on which a Minister appealed to Cabinet was Mr Topling on milk prices.

So Keith Joseph has now commented in writing, supporting a moratorium this year but opposing clawback in 1985-86.

Policy Unit have provided a note setting out the public expenditure background

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PRIME MINISTER

LOCAL AUTHORITY CAPITAL EXPENDITURE

The Chief Secretary's minute to you of 11 September proposes an immediate moratorium. You also saw his letter of 5 September to the Minister for Housing and Construction about clawback.

The announcement of a moratorium would of course be a very controversial step - particularly on the eve of the Party Conference - and I think we ought to consider the issue collectively before a decision is taken. We hesitated to introduce a moratorium in July when the forecast of overspending this year on local authority capital was much worse than it now is. The measures of restraint announced instead at that stage have had quite an effect. I seriously question whether the political outcry which a moratorium would provoke would be worth the practical results it would achieve.

Authorities' returns show scope for further spending under the existing restraint as around £350m at 18 July. Much of that will have been committed since; some of it would never be committed anyway; some of the rest will not result in expenditure because of slippage; and some of it may be spent through non-compliance even if there is a moratorium. A moratorium would, as we recognised earlier, have to be voluntary. There would be no incentive for authorities to increase capital receipts (which help the cash limit). We might save less than £100m.

Against that must be set the political damage. I have had an enormous amount of correspondence since 18 July from Conservative-controlled local authorities and Conservative MPs gravely disaffected by the restraint. Some have implied that the next request may not be heeded.

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A moratorium would also be damaging to the workload of the construction industry both because of its direct effect and because of the uncertainty it would create in the minds of those planning local authority programmes.

The Chief Secretary's proposals for clawback are also very difficult. Taken alone, they could take £800m-£900m out of a baseline for 1985/86 of less than £2,500. In conjunction with cuts on the scale he is seeking in the PESC round, their effect is even more severe. It is precisely because the total effect is only apparent when the issues are considered together that I continue to believe, notwithstanding his letter of 5 September, that the Chief Secretary and I, and the other spending Ministers, must discuss clawback as part of our bilateral process, which will also look at levels of need for each service. We cannot reach a sensible decision on clawback without looking at the whole picture.

My own proposal for dealing with the immediate problem is that we should maintain the spending curb announced on 18 July. This would be reinforced by a campaign to persuade local authorities to maximise their capital receipts in the current year, reducing pressure on the cash limit.

I am copying this to the other members of E(A); to the Home Secretary and the Secretaries of State for Education and Science and Social Services the Minister without Portfolio; and to Sir Robert Armstrong.

Handwritten signature of J. H. Callaghan.

PJ

14 September 1984

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PRIME MINISTER

LOCAL AUTHORITY CAPITAL EXPENDITURE 1984-85

I have seen the Chief Secretary's minute to you of 11 September, in which he suggests that the Secretary of State for the Environment in England and I in Wales should ask local authorities not to enter into any further commitments for the rest of this financial year. I understand that you have convened a meeting to discuss the matter next Tuesday. In my absence abroad John Stradling Thomas will represent me at that, but I thought I should make my position clear before I go.

2. Welsh local authorities have forecast an excess over the cash limit of about £50m in the current year. This is largely accounted for by their prediction of a shortfall of £38m in the amount of receipts which we have assumed in the spending plans. The problem therefore arises mainly on the receipts side of the account, and it arises entirely in the district tier: Welsh counties are not forecasting any contribution to the excess.

3. Recent returns show that almost all Welsh districts are now committed to capital spending up to their basic allocation plus prescribed proportion of receipts, and so are already within the scope of my call for a voluntary moratorium. A further call to them as suggested by the Chief Secretary would not have any effect other than to irritate, and perhaps in some cases to influence authorities away from the voluntary co-operation we need.

4. When I made my previous appeal to authorities for restraint I deliberately addressed it to the districts alone, since they were the root of the trouble. The counties appreciated that gesture: it was equitable, and in tune with the fairness Welsh local authorities have come to expect. It would be inequitable and unreasonable to now extend the call for restraint to them.

5. Instead I propose to call upon the Welsh districts to take action on the receipts side. It should be possible, with voluntary co-operation, to sell some of their mortgage books to the private sector to raise the sort of money we are looking for (I am advised that the total value of district council mortgage books in Wales is about £250m). I believe that the necessary co-operation will be forthcoming, and subject to your agreement at Tuesday's meeting I propose that a letter should go to Welsh local authorities accordingly shortly thereafter.

6. I am sending copies of this minute to the other members of E(A); to the Home Secretary and the Secretaries of State for Education and Social Services; and to Sir Robert Armstrong.

NZ

14 September 1984

R N E

BF 17.9.84.



10 DOWNING STREET

Andrew

Are you content
with the line-up
for E(A) on Tues.
as attached?

~~Yes~~

Told RAI's office
14/9.

Nicky

14/9

Local authority capital expenditure

H/A Meeting Tues 18 Sept at 1200 am

s/s Northern Ireland - will not attend; no rep
s/s Scotland - ditto
Lord Privy Seal - ditto
M/AFF - ditto

(will write to No 10)

s/s Wales - rep = Mr Stradling Thomas
s/s T+I - rep = Mr Lamont

Also invited

Home Secretary
s/s Education + Science
s/s Social Services



10 DOWNING STREET

DC

Can you very
kindly do a
ring round @
check & take
his group and
do 1400 on
the 27th ^{*} to get
ENV.

P/ENV.

✓ VEX

✓ Vd Pres

✓ Ld Govrie

→ chief sec difficult lunch at 13:30

✓ PIES

→ H/S has a lunch at the moment
will put a note in his box tonight to see if
it can be cancelled.

✓ LPP in Europe will come if in
London.

✓ Lchey wip

✓ LSI plotted

✓ Lst Wales

CR

Pl established whereabouts of
Chancellor - OK Time being held ✓

SS / ENW ✓ ?

Lord Pres ✓

Lord Gouge

(noon) Chief Secretary ✓

(lunch) SS / ES ✓

SS / SS X Buxton. add: Soc Sec
Capice

~~Home Secretary~~

Home Secretary ✓

Lord Privy Seal ✓

? ✓ CW

✓ P / Scot

at 2:30 ~~at~~ on 27/9 ~~at~~ ^{Chairing} (Wales)

Possible meeting on local government
issues

{ SS
KB
Waldgrave
Lord Avon
Lord Gouge

CR

CST

ES }

HS }

SS }

LPS

LP

SECRET

2

B/F when the issue comes to E(A).

AT 12/9

12 September 1984

MR TURNBULL

LOCAL AUTHORITY CAPITAL SPENDING

The Chief Secretary is clearly right to urge a full moratorium on further capital commitments this year: the Government cannot afford to allow any increase in the £500 million of overspending that has already occurred, and there is no other way of preventing such an increase.

The Treasury also propose claw-backs in 1985/6 to match excesses this year. This has raised a storm of protest from other departments, which receives no mention in the Chief Secretary's letter. The issue will have to be fought out in bilaterals or at Cabinet.

We agree with the Chief Secretary on the need for a new system that gives the Government proper control over capital spending. The Treasury are having an uphill task persuading other departments to agree on a suitable system, and it would be helpful for the Prime Minister to give a token of her support.

We recommend that the Prime Minister should:

- i. support the Chief Secretary's call for an immediate moratorium on further commitments this year; but
- ii. stress the need for a system that gives the Government proper control over capital spending;
- iii. reserve judgment on the PESC claw-back for 1985-6.

Oliver Letwin

OLIVER LETWIN

LAZABG

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C
CC90 1
FROM; CHIEF SECRETARY
DATE: 11 September 1984

PRIME MINISTER

LOCAL AUTHORITY CAPITAL EXPENDITURE

As you know, the public expenditure planning total for 1984-85 is at risk from a variety of adverse factors. One of these is the high level of capital expenditure by local authorities in England and Wales.

2 Because of the overspend of nearly £400m in 1983-84 and the threat of further overspending this year, E(A) decided on 10 July that the Secretaries of State for the Environment and Wales should ask local authorities to restrict their new commitments for the rest of this year. (E(A)(84)18th Meeting minutes, item 1). We had hoped that this would limit overspending in 1984-85 to a modest sum.

3 Returns now show that, despite this step, overspending in 1984-85 is likely to reach some £500m. There is a good deal of uncertainty about the figures, but this is the level predicted by the local authorities themselves. This sum is far from modest and, given the very tight position, an unacceptable potential addition to expenditure. The Chancellor of the Exchequer and I are convinced that we must take immediate corrective action. I therefore propose that the two Secretaries of State should ask local authorities not to enter into any further commitments for the rest of this

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financial year. There has already been speculation in the Press that we shall act in this way; and, to prevent forestalling, the request to authorities should be made in the next few days.

4 To the extent that even these measures fail to keep spending within the cash limit - and there is bound to be some excess - we should claw back an equivalent sum in a later year, in accordance with the usual practice. (We are taking steps to ensure that the 1983-84 overspend is offset in this way in 1985-86).

5 I recognise that this action will have some adverse effect on the construction industry and expose us to political criticism. But if we do nothing about a major breach of our spending plans, we shall be open to the much more damaging accusation that we have lost control of public expenditure.

6 Looking further ahead, I understand that we shall have shortly from officials the report commissioned by E(A) on methods of improving our present system for controlling capital expenditure by local authorities in England and Wales. It may be that we shall have to limit severely authorities' powers to use accumulated receipts and in other respects to move closer to the more satisfactory arrangements that obtain in Scotland.

7 I am sending copies of this minute to the other members of E(A); to the Home Secretary and the Secretaries of State for Education and Social Services; and to Sir Robert Armstrong.

PR

PETER REES

SECRET