

*subject as master**File**(H21AAU) B85**cc: Oliver Letwin*

10 DOWNING STREET

From the Private Secretary

31 July 1985

*Dear John,*LOCAL AUTHORITY CAPITAL EXPENDITURE

The Prime Minister held a meeting today to discuss the system for controlling local authority capital expenditure. Present were: the Lord President, Chancellor of the Exchequer, Secretary of State for the Environment, Secretary of State for Wales, Chief Secretary, Chief Whip and Mr. Baker. Also present were Mr. Brearley and Mr. Letwin.

In discussion it was quickly agreed that legislation in the next Session to amend the system along the lines suggested by the Chief Secretary or the Secretary of State for the Environment was unattractive. The Prime Minister said the Policy Unit had put forward an alternative proposal which Ministers might wish to consider. Its main characteristics were:

- (i) 100 per cent spending of in-year receipts, but no carrying over of permits into future years;
- (ii) Freedom to spend from rate fund on capital, subject only to normal block grant pressures and rate caps;
- (iii) borrowing controls instead of capital allocations;
- (iv) freedom to use, say, 10 per cent of accumulated receipts each year, unless the backlog had disappeared.

The Secretary of State for the Environment said there were attractions in such a scheme which would avoid the need for primary legislation. It could be implemented by orders. Councils would be pleased to be able to spend 100 per cent of in-year receipts. The Chancellor of the Exchequer also thought the scheme was worth examining further. He was worried, however, that unless the permitted amount of borrowing was kept very low, it would result in higher expenditure. One result might be a switch from current to capital expenditure which might be desirable. The Secretary of State for Wales pointed out that in Wales there was a large backlog of Housing Improvement Grants and the

B85

prescribed proportion of housing receipts was lower than in England. It was argued that some Councils might have difficulties in spending where receipts came in late in the year, though it was noted that a similar scheme operated successfully in Scotland, and end-year tolerances could be built in.

Summing up the discussion, the Prime Minister said that a scheme along the lines she had suggested should be further developed, for operation in 1986-87. The implications for different kinds of Council and for different services would need to be examined. Such a scheme would represent an interim arrangement pending the outcome of the local government finance review.

I am copying this letter to Joan McNaughton (Lord President's Office), Rachel Lomax (HM Treasury), Colin Jones (Welsh Office), David Morris (Lord Privy Seal's Office), Hugh Taylor (Home Office), Rob Smith (Department of Education and Science), Tony Laurance (Department of Health and Social Security), Richard Allan (Department of Transport), Murdo Maclean (Chief Whip's Office), Mike Bailey (Minister for Local Government's Office), Richard Broadbent (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

*Yours sincerely
Andrew Turnbull*

Andrew Turnbull

John Ballard, Esq.,
Department of the Environment.