

PRIME MINISTER

LOCAL AUTHORITY CAPITAL EXPENDITURE 1986-87

Departments have considered the Policy Unit's proposal for controlling local authority capital expenditure in 1986-87. The results are summarised in the letter to you from the Secretary of State for the Environment at Flag A. (There is no need for you to read the inter-departmental report attached to it.) Other Ministers have also written, below. There is no need for you to read the letters.

The report concludes that the Policy Unit's scheme cannot be put in place for 1986-87. The Policy Unit accept this and explain why in Oliver Letwin's minute at Flag B. They then rightly look for you to push the discussions along in other ways, and they make two proposals, set out in the minute.

✓ The first is that a new system of local authority capital spending control needs to be in place for 1987-88, regardless of the progress of the other local finance reforms.

✓ The second is that allocations for 1986-87 should be based on realistic estimates of local authorities' use of their spending power, so that the Government can be confident of delivering a cash limit compatible with the net provision agreed in the Survey.

This second proposal is important to this year's Survey. The present base line for 1986-87 would imply a 13 per cent real terms fall in capital spending by the English local authorities by comparison with the expected out-turn for 1985-86. This is to compare out-turn with plans. But if allocations are this time calculated realistically the plans for next year should be much closer to the out-turn than they have been.

The result would be to remove the fudge whereby everyone expects the local authorities to be able to overspend on

*David - it looks as if we shall have heavy overspend on current account - in view of the pay refs below with low. anti. movements. 1. there is way of looking or calculating the capital spend to the extent of Justice of L.A.'s in continuing current spend? O the more after minute ref.*

capital. It would also mean smaller allocations (see para 2 of the Chief Secretary's minute, flag C). Spending Ministers will therefore feel under even greater pressure to win concessions in the Survey. As a result the plans may turn out higher than otherwise, but they would be less likely to be exceeded.

An intervention by you, at this stage of the Survey, would be unusual, but it would make for better control of public spending. The letter I would sign on your behalf if you agree is immediately below.

Agree to write as drafted?

*DN*

DAVID NORRGROVE

13 September 1985