

CCBG



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My ref: B/PSO/50246/85

Your ref:

1-3 JAN 1986

J. Mm,

NBPV

LOCAL AUTHORITY CAPITAL OVERSPEND 1985/86

Thank you for your letter of 16 December.

I share your concern about the increased estimate of potential overspending on local authority capital in England in the current year. The £1bn estimate we are now making on the returns for the first half of the year is within, though near the top, of the range of £400m to £800m which we estimated after the first quarter returns. This forecast is still of course subject to fairly wide error margins. Like you I have however concluded that there is nothing we can do about this within the current year. Any requests for restraint in the current climate would have little or no effect, and would cause us major political difficulties given the pressures that are building up for increases in capital expenditure.

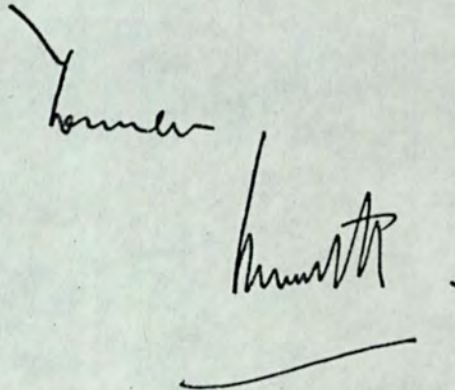
I do not understand quite what point you are making about the percentage use of spending power in 1986/87. At the time of our PESC discussions our estimate, again on the basis of first quarter figures, was that authorities might be using some 81% of their total spending power in the current year. But we all recognised quite clearly that there was a wide range of possible outcomes in the current year. Indeed, my officials' monitoring report to Treasury said explicitly that gross expenditure in this forecast was likely to be understated. Your officials were well aware that the 81% estimate of spending power was likely to increase.

You appear to imply that we argued that using an 83% assumption for 1986/87 in place of our original assumption of 85% would avoid an overspend in that year. That is not the case. I made very clear to you in our final discussion that in using an 83% assumption we would be building in the likelihood of some degree of overspending in 1986/87, though at a level considerably below that in the current year. I understand that at a recent meeting of officials an overspend of some £300m in 1986/87 was suggested as a realistic forecast. That seems a reasonable assumption in the light of present information. It would imply an 88% use of spending power in that year on the basis of present information.

As your officials know, before the PESC round next year we are taking steps to improve the quality of our information about local authorities' accumulated receipts.

When we come to 1987/88 I agree that we shall have to look at these estimates and percentages again if we are still operating with the present control system. But prediction of these totals can never be a precise calculation under present arrangements.

I am copying this letter to the Prime Minister, members of EA and to Sir Robert Armstrong.

Handwritten signatures and a flourish. The first signature is 'Lamer' and the second is 'Armstrong'. A horizontal line is drawn below the second signature.

KENNETH BAKER

ECON POL

PUBLIC EXPENDITURE

PT 34

