

VCCBG



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NBBM

My ref:

Your ref:

13 December 1985

Dear Chief Whip,

LOCAL AUTHORITY CAPITAL EXPENDITURE

I have been considering further the proposals for the treatment of local authority capital expenditure in the Green Paper on Local Government Finance, following our discussion on 10 December and in the light of Nick Edwards' letter to me of 9 December. E(LF) are to review these issues next Thursday, 19 December.

We discussed the key points listed in my letter to you of 5 December. On the first, we agreed that past assurances to local authorities about the use of the capital receipts accumulated under the present system should be taken to relate to the £3bn or so which is still backed by cash, rather than to the £6bn or so of notional spending power. But we both recognised that it may be difficult to convince our supporters that we are honouring in full those past assurances. It is therefore very important that we give adequately generous treatment to the receipts arising under the new system, and offer local authorities some further elements of flexibility, notably the ability to add to their capital spending power by limited contributions from revenue.

You said that it would be particularly important to emphasise that authorities will at all times be free to use the cash from capital receipts for such purposes as debt redemption or in substitution for new borrowing. I agree. I would also want to ensure that their additional spending power from new system receipts is greater over a 3 year period than the spending power available at the present prescribed proportions. This might be done by guaranteeing them additional allocations allowing them to use at least say 55%-60% of council house sale receipts over 3 years, and a bit more for non-housing receipts. Assuming that gross expenditure provision falls no lower than at present, this would also still allow us limited room to increase the "need-based" element of the allocations as compared with 1986/7. Some of our supporters may argue that each authority should still be able to spend all of its receipts in full. But unless expenditure provision were sharply increased, this would simply perpetuate the problem we have now of inadequate allocations to meet need.

Nick Edwards believed that my approach of gross allocations would tie down authorities more closely than this, which would allow authorities as now to add to net allocations a proportion of receipts. In practice I believe that my approach could give us in central Government a bit more certainty without tying down authorities any more tightly. But we have spelt out both versions in the Green Paper and we can review this point in the light of reactions to it.

We discussed also the freedom which authorities at present enjoy to vire allocations between services. I attach great importance to maintaining this freedom, which was heavily emphasised when the present system was introduced. The gross expenditure system overall will be criticised as centralist in intention. Freedom to vire is one important way in which local authorities can give due attention to local priorities. Nor do I believe that this freedom is being used to frustrate our intentions in the distribution of public expenditure provision. The attached table shows that with the minor exception of Personal Social Services, authorities collectively have consistently spent more than their total of allocations for each service, suggesting that the power of virement is used in relation rather to their own receipts than to allocations.

We shall discuss these issues at E(LF).

I am copying this letter to the Prime Minister and members of E(LF), and to Sir Robert Armstrong.

Yours sincerely,

R. J. J.

PP KENNETH BAKER

(Approved in draft by the Secretary of State and signed in his absence.)

fm

	1983/84		1984/85		1985/86	
	Gross spend	Allocations	Gross spend	Allocations	Gross spend (Q2 f'cast)	Allocations
EDUCATION	450	295	474	300	468	315
HOUSING	3111	1801	3129	1853	2502	1600
PSS	104	109	110	119	115	70
TRANSPORT	751	741	839	789	696	640
OTHER SERVICES	1164	731	1056	377	983	320

CAPITAL ALLOCATIONS COMPARED
 WITH GROSS EXPENDITURE: DOE/LA1
 BLOCKS: 1983/84 - 1985/86

LOCAL GOVT. PT 29

RELATIONS BETWEEN

CENTRAL + LOCAL GOVT

