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PRIME MINISTER

LOCAL AUTHORITY CAPITAL EXPENDITURE CONTROLS

For information.

Mr. Langdon's minute below reports the position on discussions
about local authority capital expenditure controls.

You will see that discussions about the future of the capital
control regime, following the Green Paper on Local Authority
Finance, have now got caught up with the spending plans for
1987-88.

Mr. Langdon suggests that you may want to take a meeting.
There is no need to take a decision on that point at this
stage. If the decision comes to focus on money to be provided
rather than on the structure of the controls it may well be
more appropriate for the Lord President to take the meeting.

DN

David Norgrove
19 June 1986

MS

JALAWQ



MR NORGROVE

cc Miss MacNaughton (Lord
President's Office)
Mr Stark (Sir Robert Armstrong's
Office)
Mr Unwin
Mr Eland
Mr Roberts

LOCAL AUTHORITY CAPITAL EXPENDITURE CONTROLS

I promised you a further report about proposals for the future arrangements for controlling local authority capital expenditure. You will recall that in his letter of 14 May to the Chief Secretary, the then Secretary of State for the Environment reported the responses received to the proposals in the Green Paper.

The Problem

It has long been recognised that the present system of control is inadequate. But we now face an immediate problem over the arrangements to be made for 1987/88. In December 1984 the then Secretary of State (with the agreement of the Treasury) gave an undertaking that the allocations made to individual local authorities for 1987/88 would be not less than 80 per cent of their allocation for 1985/86. To this basic allocation local authorities may add the spending power derived from accumulated capital receipts (mainly from the sale of council houses). The resulting total spending power is, however, likely to be substantially in excess of existing PES baseline. There are in



principle three ways to deal with this problem.

1. To increase the relevant PES baselines substantially (by about £450 million for Housing and £125 million for Local Environmental Services) - as set out in Mr Ridley's letter of 13 June to the Chief Secretary;
2. To announce that the Government is unable to meet its earlier commitment about levels of allocation on the ground of a "substantial change in economic circumstances";
3. To introduce a new system of capital controls, which will supersede the present system and any ~~undertakings~~ given under it.

I need not expand on the difficulties which the Chief Secretary will have in accommodating Option 1.

Option 2 and 3 would remove the risk of successful legal challenge when the allocations are announced at the turn of the year. They would not, of course, deal with the political problems. Local authorities, including many under Conservative control, would lobby vigorously against option 2. Option 3 would require legislation to be enacted by April 1987 and implemented immediately, and it would be clear to local authorities that the main effect would be to reduce their spending power.



Mr Ridley does not favour either option 2 or 3: in his view an addition to baseline of more than £575 m is justified on merits, and hence neither is required.

Ministers will, however, now have to decide which course to follow very quickly. The Solicitor General's advice is that if the Secretary of State has it in mind to denounce his predecessor's undertaking, he must do so at once in order to give local authorities sufficient opportunity to make representations. Similarly, if new legislation is to be in place by April, instructions ought to be with Parliamentary Counsel within the next four or five weeks.

You will have seen from the minutes that E(LA) is discussing possible amendments to the RSG settlement for current expenditure which would also require legislation at the start of the next session. The intention would be to amend the grant recycling arrangements so as to penalise more effectively authorities which increased their spending. Again, this legislation could be controversial, and should be in place before April if at all possible.

As soon as we have Mr Ridley's considered proposals for the capital system, I am sure we shall need a meeting chaired by the Prime Minister. This might be either E(A) or E(LF). If this



proves difficult to arrange, in the first instance at least, a smaller meeting with the Environment Secretary, the Chief Secretary, the Lord President and the Chief Whip might be appropriate. I understand that Mr Ridley now hopes to have cleared a paper with the Chief Secretary by the middle of next week.

A/L

A J LANGDON

Cabinet Office
18 June 1986