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LPO
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CO
CST.

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

22 September 1986

Dear Councillor Beresford.

I would like to thank you for the very comprehensive report enclosed with your letter of 1 September. I was most impressed with what you and your colleagues in the Conservative administration have achieved. Nicholas Ridley is considering how we can best ensure that those achievements, which contrast so starkly with the waste in other Inner London boroughs, are more widely known.

I was also very grateful to you for letting me see the paper and accompanying charts attached to your letter of 11 July on controls over local authority capital spending. Nicholas Ridley has looked carefully at the points you have made.

On advance and deferred purchase schemes, you will know that we have already announced a ban but that we are considering an exemption so that authorities that genuinely need to use deferred purchase agreements for an occasional project are not disadvantaged. I hope that largely meets your concern. There were a considerable number of authorities using these devices in a way which flagrantly abused the present control system, leaving ratepayers in some areas facing huge future rate increases regardless of local

BM.

election results. Nicholas Ridley will be making a further announcement about the outcome of our review as soon as we have decided on the way forward.

I do want to congratulate you on all you and your colleagues have achieved for Wandsworth. Reading your report was a real tonic. We must get your recipe and its achievement more widely known.

Warm regards,

Yours sincerely

Margaret Thatcher

Councillor A.P. Beresford

CC BG

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: R/PSO/16488/86
R/PSO/16326/86
Your ref:

David Norgrove Esq
Private Secretary
10 Downing Street
London SW1A 2AA

15 September 1986

Dear David,

Thank you for your letter of 2 September enclosing the report from Councillor Beresford, Leader of the London Borough of Wandsworth, which had been requested by the Prime Minister at her meeting with Councillor Beresford last July. We had, as you suggested, deferred replying to your earlier letters of 11 and 18 July about the impact of the local authority capital expenditure control system on Wandsworth until this further report was available.

My Secretary of State considers the report to be a very effective summary of Wandsworth's considerable achievements under Conservative control. He has asked his Special Adviser, Katherine Ramsay here, to consider what presentational use can be made of the material.

Wandsworth's comments on the future control system and its effects on them are based on the proposals which were published in the Green Paper "Paying for Local Government" and the subsequent more detailed consultation paper on capital. You will know that at their meeting on 31 July E(LA) agreed that my Secretary of State should introduce legislation in the next Session of Parliament for a new control system to come into effect on 1 April 1988. My Secretary of State is now seeking E(LA) approval for the details of the new system with the intention of making a public announcement shortly. The proposed system is closely based on that outlined in the Green Paper, but with some modifications which should improve its acceptability to local government - in particular allowing the level of extra capital spending financed direct from revenue to be determined by individual authorities.

These amendments should help to moderate the impact on Wandsworth of a new system. But some effect is inevitable, because Wandsworth have been, perfectly legitimately, astute in taking advantage of the various elements of flexibility in the capital control system. The Government cannot allow these to continue if it is to gain an acceptable level of control over local authority aggregate capital spending. But the amendments which my Secretary of State has proposed to E(LA) should help to moderate the impact which Wandsworth fear from the system as originally

proposed in February. Moreover, we feel that Wandsworth have overstated their case.

At the end of 1984/85, Wandsworth had £82m of accumulated receipts, of which £27m was backed by cash. They have therefore already in practice used the other £55m for such purposes as capitalised housing repairs or the repayment of debt. The present control system is bedevilled by the spending power from these notional accumulated receipts which have no reality in money terms. An effective new system must ensure that receipts once used up have no further part to play. But even under the existing system Wandsworth have not planned to use all their theoretical spending power from this source. Indeed it is doubtful whether they could have done so in practice without an unacceptable effect on their rates.

You also asked for a note on double counting of receipts under the present system, brought about by what is known as the "cascade" effect. Under the present control system an authority is allowed to use only a proportion of its receipts in any one year, for example 20% in the case of the proceeds of a council house sale, to supplement its capital allocations. But whatever amount remains unapplied in one year may be carried forward into the next, and the prescribed proportion applied again. This effect of net receipts "cascading" from one year into the next continues until the receipts have been completely used up. In the early years of the system the national total for allocations was calculated on the basis of our original interpretation of the statute, which we have since had to revise, that the application of the prescribed proportion was a once-for-all process. The non-prescribed proportion of forecast in-year receipts was therefore added to net provision in determining the total for allocations. Since the non-prescribed proportion actually became available to supplement allocations in later years, there was indeed double-counting.

From 1985/86 we have avoided this by calculating the allocation total in a different way, which makes allowance for the full amount which we think authorities will use from their receipts in a given year. But the build-up of receipts under the cascade rule remains a problem. In the proposed new system it will be tackled in two ways. First, as mentioned above, authorities will only be allowed to carry forward receipts spending power from the present system where they have not already spent the cash. This will make a big difference: at the end of 1984/85 authorities in England had £6.2bn of accumulated receipts, of which only £3.8bn was backed by cash, the rest having been used for purposes such as debt redemption. Secondly, once the new system is running the percentage of outstanding receipts which authorities will be permitted to spend in a given year will be set so as to ensure

that the aggregate rate of usage at least equals the rate of generation of new receipts and a renewed pile-up of receipts is avoided.

I enclose a draft reply to Councillor Beresford. I am copying this letter to the recipients of yours of 2 September.

Yours,

Robin.

R U YOUNG
Private Secretary

David Norgrove Esq

3F

R/PSO/16488/86

DRAFT

SRWAIV

Councillor A P Beresford
Leader
London Borough of Wandsworth
The Town Hall
Wandsworth High Street
London SW18 2PU

I would like to thank you for the comprehensive report enclosed with your letter of 1 September. I was most impressed with what you and your colleagues in the Conservative administration have achieved. Nicholas Ridley is considering how we can best ensure that those achievements, which contrast starkly with the waste in other Inner London boroughs, are more widely ~~disseminated~~ known.

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LOCAL GOVT Relations PT30

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DG2812

10 DOWNING STREET

From the Private Secretary

2 September 1986

Dear Robin,

WANDSWORTH

I now enclose a copy of the report requested by the Prime Minister from Wandsworth Borough Councillors when she met them in July. I am also sending you copies of the appendices and the graphs.

I should be grateful if you would now consider this material, together with the material I sent you with my letter of 11 July, and let me have your comments which I can show to the Prime Minister. I shall also be grateful for a draft reply for the Prime Minister to send to Paul Beresford, Leader of Wandsworth Council, and for a reply on the question of double-counting of capital receipts discussed in the final paragraph of my letter of 11 July.

I am sending copies of this letter, without enclosures, to Joan MacNaughton (Lord President's Office), Murdo Maclean (Chief Whip's Office) and Michael Stark (Cabinet Office) and, with enclosures, to Jill Rutter (Chief Secretary's Office, H.M. Treasury). I am also sending Jill Rutter copies of the enclosures to my letter of 11 July.

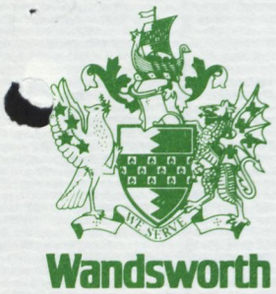
Yours,

David

David Norgrove

Robin Young, Esq.,
Department of the Environment.

DSG



From the Leader of the Council

Leader's Room
The Town Hall, Wandsworth High Street,
London SW18 2PU

Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, S.W.1.

1st September 1986

Dear Mrs Thatcher,

I attach the report you requested.

Please accept my apologies for the delay, essentially due to the few weeks vacation I undertake every three years or so.

For brevity, the report is in general terms, with the Appendices and attachments as illustrations.

I would be more than happy to expand on any areas which you or your office desire. However, an expanded edition has been requested by the Centre for Policy Studies.

Yours sincerely

Paul Beresford
Leader of the Council.

Rule OA

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

Acll 18 July 1986

I enclose a letter the Prime Minister has had from the Leader of Wandsworth Council. I am sure it is for you rather than the Treasury to prepare a draft reply and I should be grateful if you could do this, for the Prime Minister's signature.

BF

You will see that the Prime Minister requested a further paper and you might wait for this before sending over your draft reply. There is some doubt about what this paper will cover, and I understand that the Leader of Wandsworth Council is also uncertain about it!

I am sending a copy of this letter to Jill Rutter (HM Treasury).

(David Norgrove)

Robin Young, Esq.,
Department of the Environment.

10 DOWNING STREET
LONDON SW1A 2AA
From the Private Secretary

18 July 1986

Thank you for your letter to the Prime Minister of 11 July. I am sure the Prime Minister will be interested to see the memorandum which you sent with your letter. A reply will be sent to you as soon as possible.

(David Norgrove)

Paul Beresford, Esq.

2

PRIME MINISTER

WANDSWORTH COUNCIL

Wandsworth have now written in with papers which they have sent to the Chief Secretary. I have asked for a draft reply.

You will see that their own proposals on capital (paragraph 3(a) on page 2) are close to the idea you have yourself asked the Treasury and DOE to consider in relation to receipts from sales of surplus schools.

DRN

David Norgrove
18 July 1986

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VC2AMC

bc BG

10 DOWNING STREET

From the Private Secretary

11 July 1986

WANDSWORTH: CAPITAL CONTROLS

My letter to Joan MacNaughton of 10 July about the rate support settlement for 1987/88 recorded a brief discussion of the way in which capital controls were restricting the activities of councils which were working to achieve objections shared by the Government. The Prime Minister had mentioned Wandsworth in particular in this context.

I now ennclose some charts which were handed to the Prime Minister by Wandsworth Borough Council at a meeting earlier this week (no-one from the Private Office was present at this meeting and no record was taken of it). I am sure the Prime Minister would find it helpful to have your comments on the position of Wandsworth Council.

BF

In this context I might also mention that the Prime Minister has from time to time referred to the way in which double-counting of capital receipts has contributed to the problem of accumulated capital receipts and the pressure for a relaxation of controls over their use. It would be helpful to have an assessment of the significance of double-counting, and of the extent to which it is a continuing problem.

I am copying this letter, without the enclosures, to Joan MacNaughton (Lord President's Office), Jill Rutter (HM Treasury), Murdo Maclean (Chief Whip's Office) and Michael Stark (Cabinet Office).

DAVID NORGROVE

R.U. Young, Esq.,
Department of the Environment.

Wandsworth

R 14/7 Dy Hon

From the Leader of the Council

Leader's Room
The Town Hall, Wandsworth High Street,
London SW18 2PU

Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, S.W.1.

11th July 1986

Dear Mrs Thatcher,

Thank you for entertaining David Mellor, my core of Wandsworth Conservative Councillors, and myself, last Tuesday afternoon.

We were particularly pleased with the concern you indicated over our potential problems on capital/capital receipts.

As requested, I enclose the papers we are forwarding to John MacGregor, M.P., Chief Secretary to the Treasury.

These are:-

(1) A memorandum outlining our criticisms and suggestions relating to the appropriate section of the Green Paper "Paying for Local Government".

(2) Two graphs, one indicating the effect of the proposals on Wandsworth. The second showing the imbalance that has arisen on capital for some similar inner London Authorities with differing attitudes to Council house sales.

The further paper you requested should be with you shortly.

Thank you again for both receiving us all and listening to our ideas.

Yours sincerely

Paul Ashford

LOCAL AUTHORITY CAPITAL EXPENDITURE CONTROL

A critique of proposals by the Department of the Environment, with alternative proposals by Wandsworth Council

1. **This memorandum first briefly describes proposals for a new system of capital expenditure, arising from Chapter 6 of the Green Paper "Paying for Local Government" (Cmnd. 2714) and elaborated in subsequent consultation papers. These proposals are contrasted with a simpler system suggested by Wandsworth Council, and they are then critically examined in relation to the Government objectives as stated in the Green Paper. The conclusion is that the Department's proposals would have many perversely detrimental effects on these objectives, while the more straightforward Wandsworth proposals would further the objectives far more readily.**

2. **Department's Proposals.** The proposals were for consultation and alternatives were put forward in respect of a number of features. Accepting that there may therefore be variations in detail, the main proposals can be summarised as follows:-

(a) Annual spending limits allocated by Government Departments to individual authorities would be virtually all inclusive, embracing, in particular, the reinvestment of capital receipts. They would, therefore, broadly equate in aggregate to the sum of the national cash limit for local authority net capital spending and the Government forecast of local authority capital receipts.

(b) For each authority, the annual limit would be composed of a needs-related element, and an element based on the authority's own performance in generating capital receipts during the three preceding years. Only a proportion could be added to the spending limit. However, this proportion could be varied by order of the Secretary of State from year to year. The availability of capital receipts could also be taken into account in determining the needs-related element of the spending limit.

(c) The scope for local authorities to shift spending nationally from one financial year to another would be restricted by banning advance-payment arrangements and limiting the period of operation for deferred-payment arrangements.

(d) Government undertakings, that all capital receipts accumulated under the present system will be fully available for reinvestment, would be met by including these fully within the spending limits for the first three years of the new system, though suitably phased over the period. The needs-related element of spending limits would be correspondingly constrained to ensure that the sum of all the spending limits conformed with national expenditure plans.

3. **Wandsworth's Proposals.** These are developed on the basis of Wandsworth's demonstration that active asset management - sales and reinvestment - is not only desirable in theory, but also readily practicable for any local authority.

(a) Annual spending limits allocated by Government Departments to individual authorities would not embrace the reinvestment of capital receipts generated within the year or within (say) the preceding year - the precise cut-off point would need to be determined, and specified in primary legislation.

(b) For each authority, the annual limit would be based on an assessment of the need for capital investment, without regard to the availability of capital receipts.

(c) The scope for local authorities to pre-empt future resources, by notionally shifting spending to later years, would be restricted by limiting the percentage of the contract sum as well as the period of operation for deferred-payment arrangements.

(d) Government undertakings, that all capital receipts accumulated under the present system will be fully available for reinvestment, would be met by special treatment of those which arose before the cut-off point for reinvestment for the first year of the new system. These would be added to the spending limits for the first three years of the new system, though suitably phased over the period, and with corresponding reductions in the assessed needs of the authorities concerned - as a transitional exception to the general principle stated in (b) above, to ensure that the sum of all the spending limits conformed with national expenditure plans.

4. **Government Objectives.** The Green Paper states three objectives which any capital expenditure control system must satisfy.

(a) "it should provide effective Government influence over aggregate levels of local authority capital expenditure and borrowing" (the influence objective);

(b) "it should promote the Government's aim of reducing the size of the public sector by encouraging asset sales" (the sales objective); and

(c) "it should provide a sound basis for local authorities to plan their capital programmes" (the planning objective).

The Department's proposals therefore invite comparison in relation to these objectives.

5. **All-inclusive spending limits.** In relation to the influence objective, this extension of control is misdirected, since achievement of Government targets for borrowing and net investment would still be dependent upon the forecast on in-year receipts, which would fall outside the framework of Government influence. In relation to the planning objective, the extension is counter-productive, in taking more decision-making power away from the local level.

6. **Limit based on proportion of three preceding years' receipts.** This arrangement would compel authorities to accumulate receipts with a view to using them in future years. Even after the transitional period, this would amount to well over a year's capital receipts, remaining a target for pressure-groups to demand faster reinvestment. The Wandsworth proposals would reduce these pressures against the influence objective, by encouraging authorities to reinvest promptly and hence to operate with minimum levels of unused receipts. The Wandsworth proposals would also aid Government forecasting of net investment, because authorities would have an incentive to match any peaking of receipts with corresponding peaks of expenditure, and vice-versa.

7. The Department's proposals work against the sales objective by reducing the incentive to generate receipts. This arises both from the less-than-full availability of receipts for reinvestment, and from the enforced delay before reinvestment. In the latter years of any Council administration, there may seem little purpose in merely generating resources for the next administration.

8. Active asset management would face added difficulties under the Department's proposals, militating against the planning objective. Every disposal and matching reinvestment would have to contend with the anomalous requirement to find still more resources to make up for that proportion of the receipt which does not add to the spending limit. If the reinvestment were in the same financial year, or simultaneous with the disposal as in many partnership schemes for low-cost home ownership, the anomaly would become a generally insurmountable requirement to accumulate an equivalent additional amount of resources over the previous three years.

9. **Viability of eligible proportion of receipt.** The legal framework would set the scene for a future Government to reverse the intended encouragement of asset sales by a simple order reducing the eligible proportion to virtually nil. The resulting lack of assurance of future benefit runs counter to the Government's sales objective. In any event, the uncertainty about the eligible proportion from year to year undermines the planning objective.

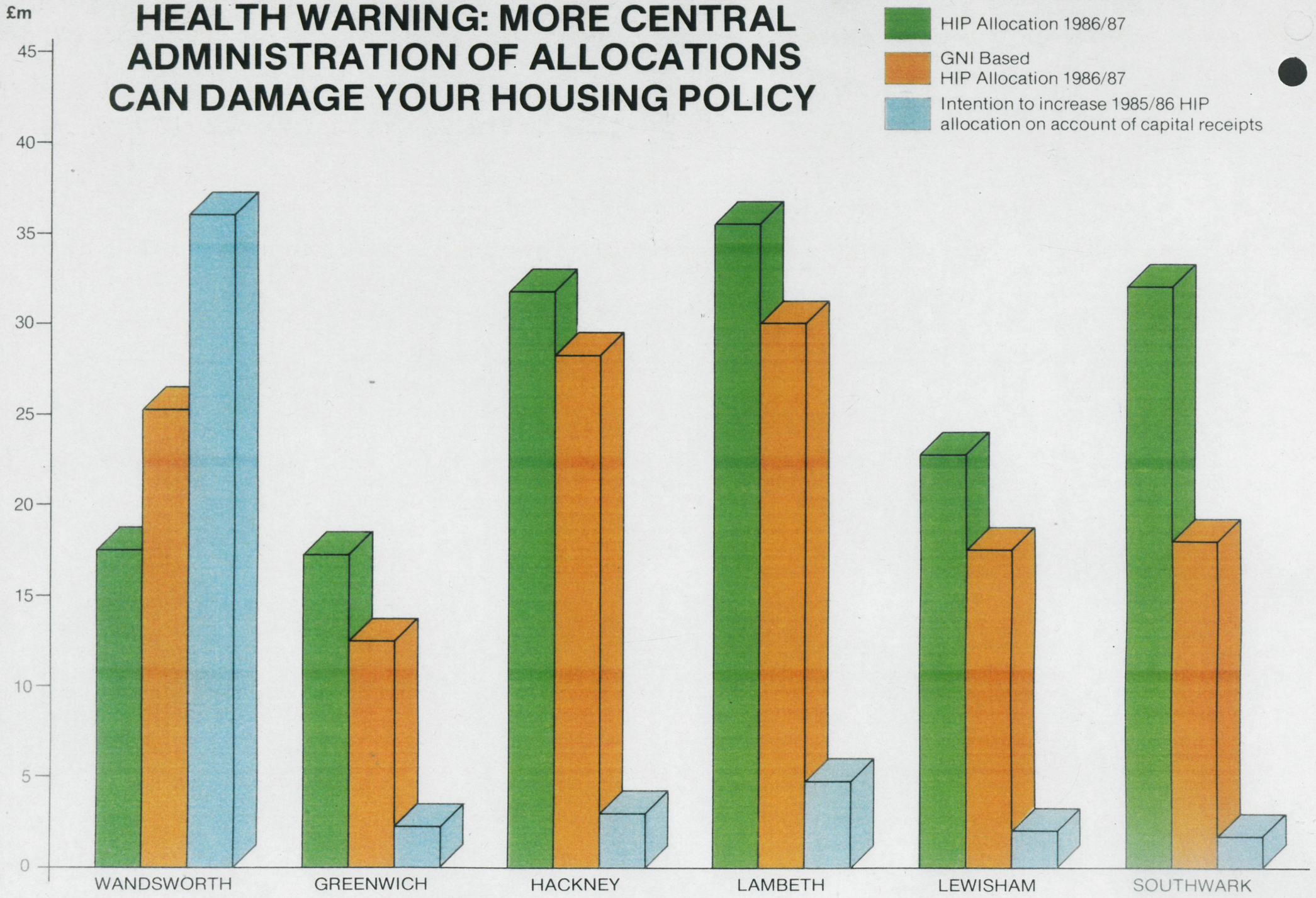
10. **Needs-related element of limit to take account of receipts.** There is some inevitable disincentive to generate receipts arising from the fact that eventually this will lead to lower spending-limits than the less active authorities who have failed to meet their local needs so speedily. The Department's proposal would vastly increase this disincentive, effectively imposing immediate penalties on authorities who pursue the Government's sales objective. Incidentally, it would also run counter to the planning objective, by introducing a further dimension of unpredictability to the subjective judgements of need made by Government departments.

11. **Advance and deferred-payment arrangements.** The Department's proposals are lop-sided about these arrangements, and more favourable towards the less deserving. Advance payment arrangements operate on a comparatively restricted scale for well-defined schemes where resources have already been obtained. Deferred payment arrangements, by contrast, can operate on an indefinitely large scale to pre-empt resources which the Government intends to make available for future years, and for potentially different Council administrations. The Department's proposals may only yield higher fees for the City instiututions which specialise in exploiting loopholes in this type of legislation. But it is worth making greater efforts to restrict deferred payment schemes because the sheer weight of commitments they generate could endanger Government spending plans for future years. The Wandsworth proposal is therefore more stringent than the Department's in this respect. Advance payment arrangements, however, should be seen as a minor but useful aid to sound planning for local authorities faced with a short-term peak of resources.

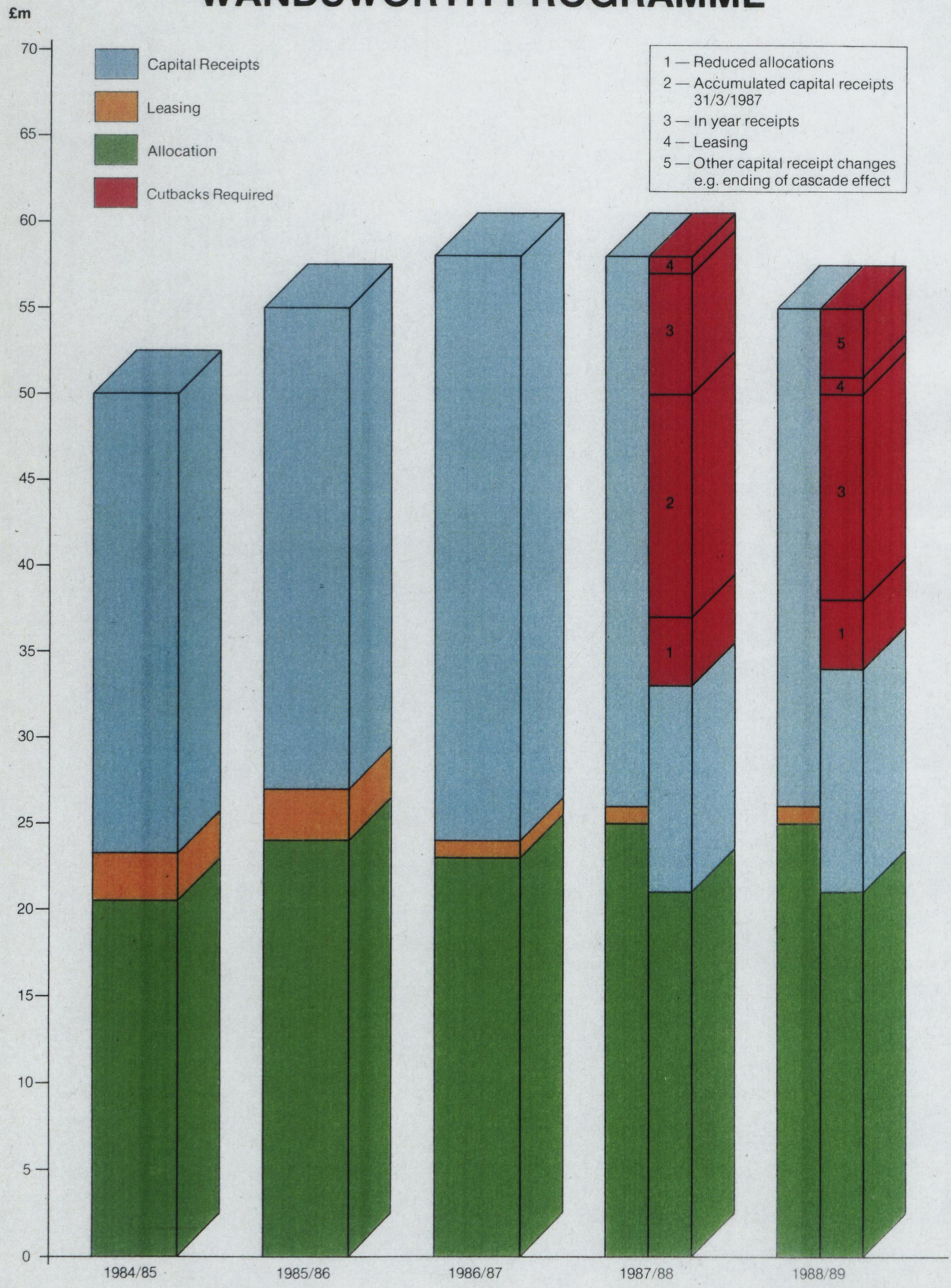
12. **Transitional Arrangements.** The Department's proposals cause greater transitional problems because all capital receipts accumulated at the start of the new system require special treatment. Under Wandsworth's proposals, only those accumulated before the cut-off date for use in the first year require such treatment. As any such treatment creates uncertainties for local authorities, the Wandsworth proposal must be less inimical to the planning objective.

11th July 1986

HEALTH WARNING: MORE CENTRAL ADMINISTRATION OF ALLOCATIONS CAN DAMAGE YOUR HOUSING POLICY



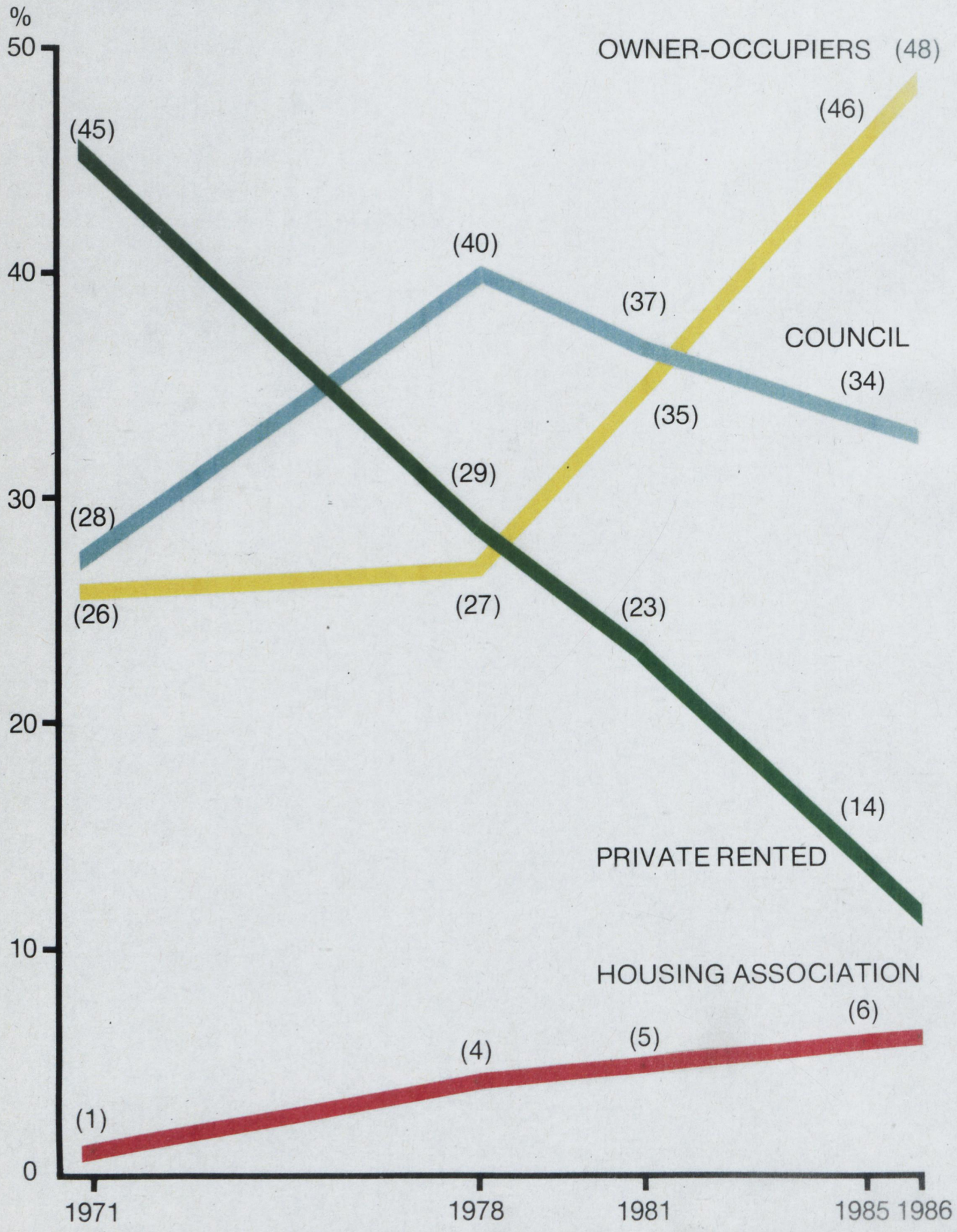
EFFECT OF GOVERNMENT'S PROPOSALS ON WANDSWORTH PROGRAMME



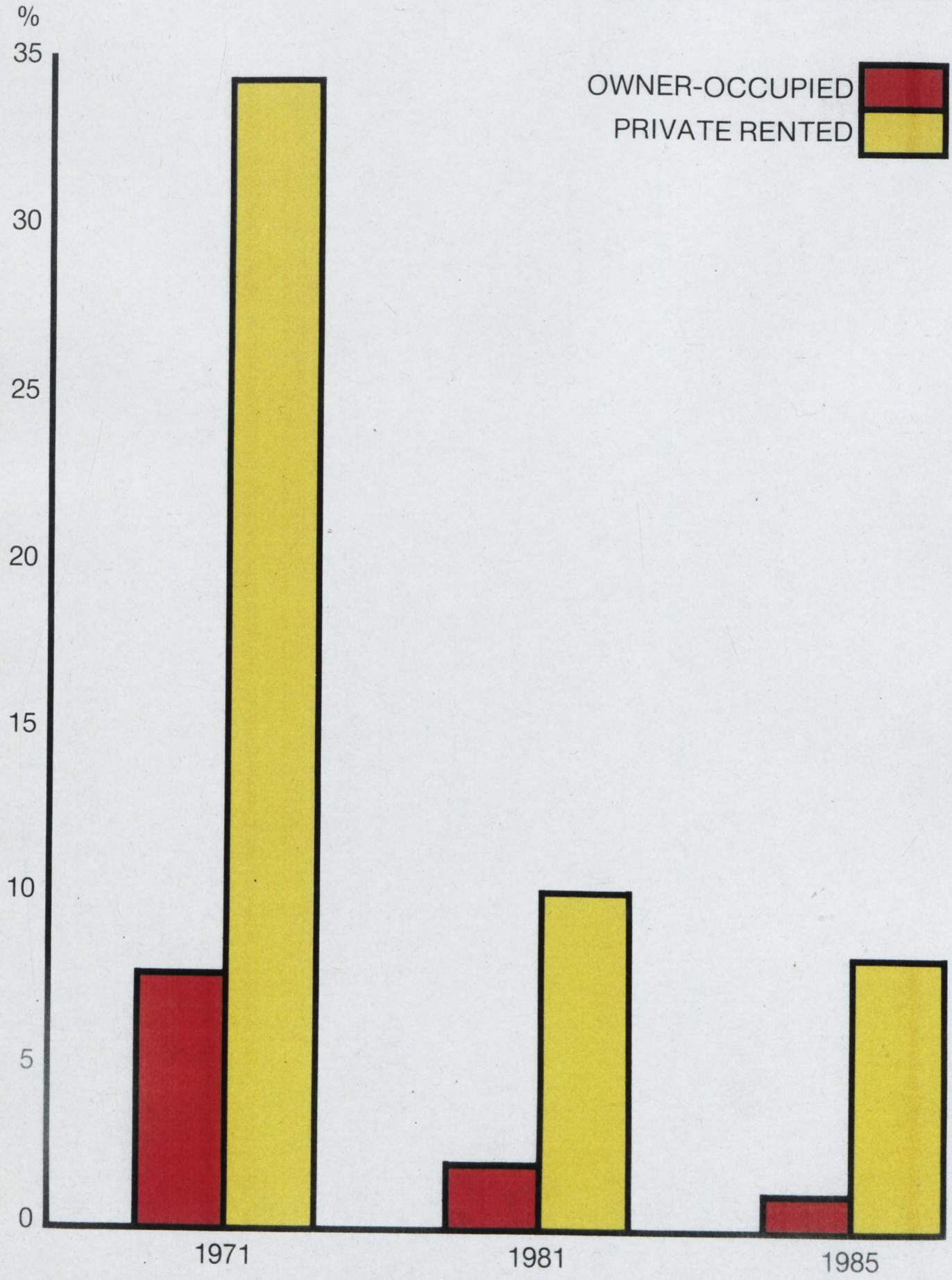
WANDSWORTH REVENUE EXPENDITURE IN REAL TERMS (1986/87 PRICES)

(excluding GLC transferred services in 1986/87)

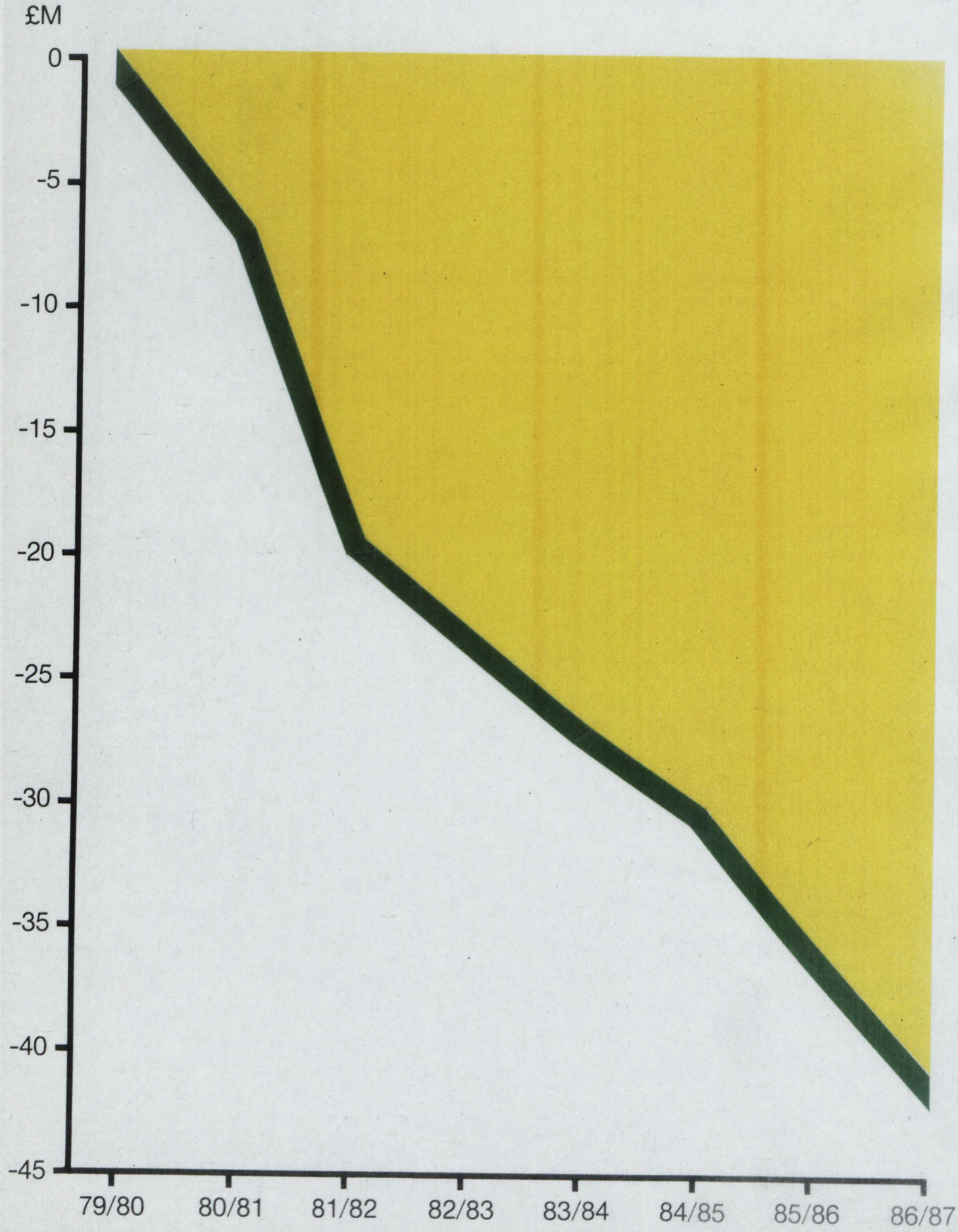
TENURE GROUPS 1971-1986
ALL HOUSEHOLDS



% OF TENURE GROUP LACKING BATH OR INSIDE W.C.

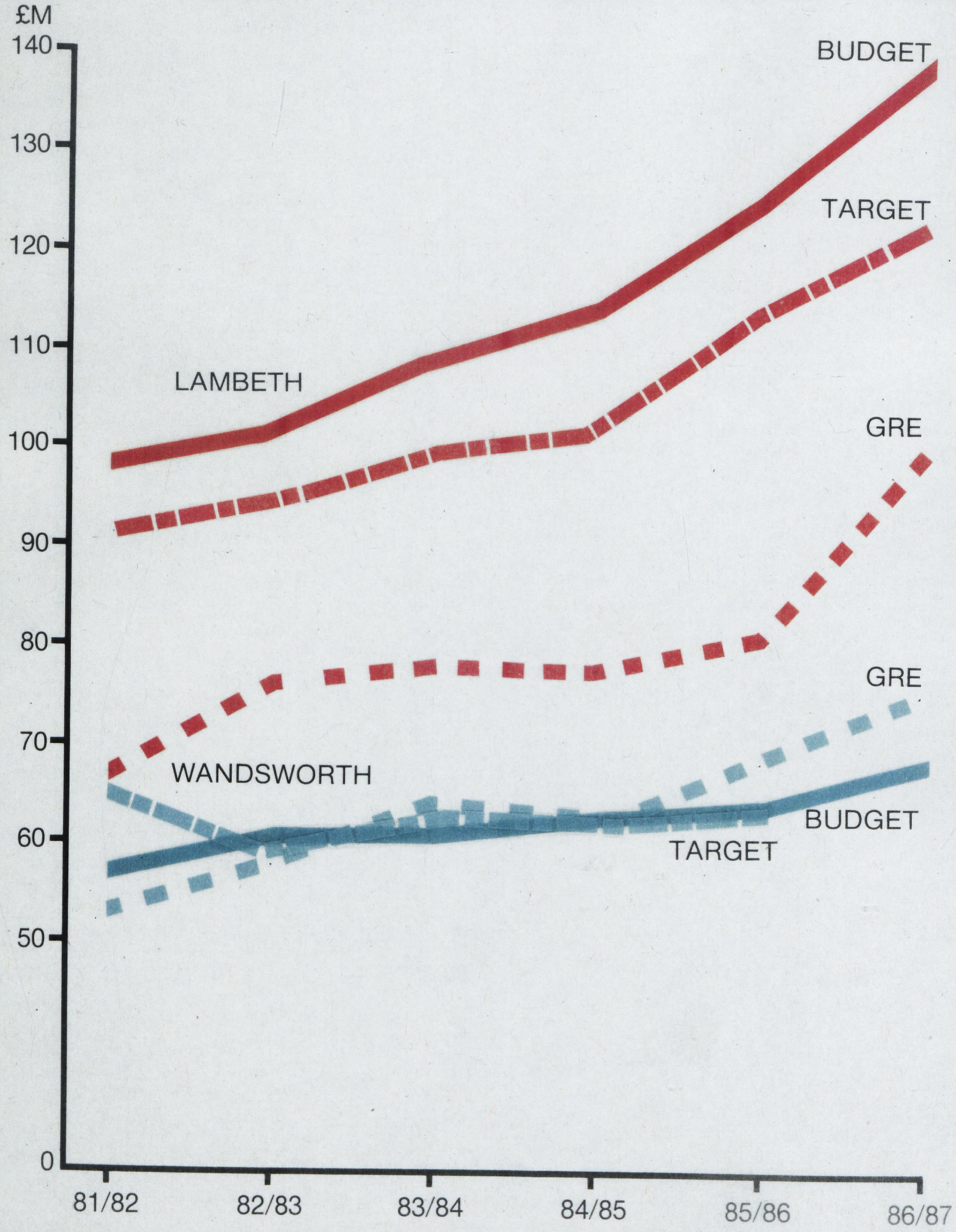


WANDSWORTH CUMULATIVE EFFECT OF ECONOMIES AND EFFICIENCY (1986/87 PRICES)



EXPENDITURE COMPARISON — WANDSWORTH/LAMBETH

(excluding GLC transferred services in 1986/87)



PRIVATE SECTOR. % LACKING & SHARING 1 OR MORE AMENITY.