

PRIME MINISTER

DRAFT CONSULTATION PAPER ON LOCAL AUTHORITY CAPITAL CONTROL SYSTEM

In parallel with the papers for the E(LF) discussion on housing, you saw the attached draft consultation paper on the new local authority capital control system. Mr Ridley is seeking early agreement to its being published.

This consultation paper is not about housing. It states explicitly (Flag A) that the Government is considering the treatment of capital expenditure on council housing separately.

The proposals in the draft were agreed in E(LF) last year. The question arises whether, given the current discussions on housing, it is appropriate now to go ahead with this consultation paper on non-housing aspects. But no other Minister has raised objections. Are you content for it to go ahead?

But this weeks discussion then into question.

① I don't think it can go out in printed form - cf. the passage you have marked on p. 2 tells authorities that they are not at liberty to spend all capital receipts (subject only to line constraint) This is part of the policy of other Ministers we are now discussing. If other Ministers have not raised objections, that merely means they haven't need the papers submitted well or found

RCB. See also page 10 of main paper
PAUL GRAY
24 March 1988

Mr B The foreword in at odds with page 20. And see also page 24 page 27 we are now discussing. But see page 29

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② Does the point I have marked at the top of p. 2 mean a borrowing limit for each & every local authority?

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bc = BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

28 March 1988

DRAFT CONSULTATION PAPER ON LOCAL AUTHORITY
CAPITAL CONTROL SYSTEM

The Prime Minister has now had the opportunity of studying your Secretary of State's minute of 15 March and the attached draft consultation paper. In the light of the discussion at E(LF) last week on the possible new arrangements for housing capital, the Prime Minister feels it would not be appropriate for the consultation paper on Local Authority Capital Control generally to issue at this stage. She thinks that finalisation of the consultation paper should await further discussions now commissioned on housing.

I am copying this letter to the Private Secretaries to other members of E(LF), the Attorney General and Sir Robin Butler.

PAUL GRAY

Roger Bright, Esq.
Department of the Environment

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From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

28 March 1988

[Handwritten signature]

*MBPM
Rec 6
22/3*

LOCAL AUTHORITY CAPITAL CONTROL CONSULTATION PAPER

E(LF)(88) 5

As you know I agree that this consultation paper should cover Wales as well as England and I should like us to issue it jointly.

In deciding how to implement it in detail I shall of course need to have the power to apply the details separately and differently in the Principality. In so doing I shall of course wish to take into account any comments which the Welsh Local Authority may have made during consultation, as well as any methodological points for which the Chief Secretary may wish to press.

/ This letter is copied to other members of E(LF) and to Sir Robin Butler.

[Large handwritten signature]

Rt Hon Nicholas Ridley MP
Secretary of State for Environment



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON

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Recd
29/3

28 March 1988

Dear Nicholas,

**LOCAL GOVERNMENT IN ENGLAND AND WALES :
CAPITAL EXPENDITURE ON FINANCE CONSULTATION PAPER**

I refer to your minute of 15 March to the Prime Minister enclosing your proposed consultation paper. *with PG?*

Your draft clearly brings out the problems with the present system in England and Wales, notably the huge variation between the Government's expenditure plans and what is actually spent, the inability to match individual allocations to need, the anomalies which have led to about £6 billion of unused accumulated receipts and the loopholes for creative accountancy devices on a massive scale.

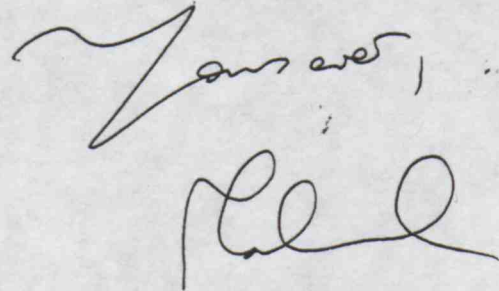
I have found it difficult against this background to justify my much stricter control over Scottish local authority capital expenditure. The system here, based on section 94 of the Local Government (Scotland) Act 1973 has had few of the problems your paper describes and has resulted in spending being within 1% of my SO/LA1 cash limit in every one of the last four years. I therefore very much welcome your intention to get a grip on English and Welsh local authority capital spending.

While it remains to be seen if the complex and indirect control you propose will be so effective as a direct control of capital expenditure, I am anxious that the present ineffective direct control is replaced by a better system and I am therefore content for you to proceed as you propose subject to two general provisos.

First, I need to be able to say, in answer to the inevitable question whether your paper has any implications for the Scottish system, that it has no immediate direct implications. In particular I propose to respond - and I hope you will help by avoiding where possible detailed direct comparisons with my system - by saying that the Scottish capital control system, though aimed at the same broad objectives, is quite different in conception, that it has worked well and that it would be my general intention to continue with it. Secondly I shall, however, come under pressure from Scottish local authorities who will correctly assert that your proposed system represent a somewhat easier regime than I am applying to them especially in the carrying forward of receipts and free use of current revenue for capital expenditure. I therefore need to be able to

say that I will be keeping my control system under review and that I may make adaptations to it in the light of developments in Scotland as well if necessary to ensure that the overall effects of the two systems do not represent wholly disproportionate treatment of local authority capital spending rules within the UK. Provided these two points are accepted I am content for you to proceed as you propose.

I am copying this to other members of E(LF) and to Patrick Mayhew and Sir Robin Butler.

A handwritten signature in black ink, appearing to read 'Malcolm Rifkind', written in a cursive style.

MALCOLM RIFKIND

28.11 AM 8

in plus

ce/b



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
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Rec'd
29/3

28 MAR 1988

John Moore

CONSULTATION ON LOCAL AUTHORITY CAPITAL EXPENDITURE AND FINANCE

WITH PG?

Thank you for sending me a copy of your minute of ~~15~~ March to the Prime Minister attaching the draft of a consultation paper on the proposed new local authority capital control system. I have also seen the comments made by John Moore and Kenneth Baker on the proposals. In general, I agree with Kenneth that we should issue the consultation paper as soon as possible. There is still uncertainty about the precise ways in which PES decisions will be affected by receipts, and the mechanisms for distributing borrowing approvals for different services. but this will need to be resolved separately.

For transport, the proposal to give authorities commitments on resources for two forward years could give rise to problems, because it might lead to additional rigidity which could not cope with fluctuations in major project spending. If forward commitments are included in the new system, I would also need to be sure that borrowing approvals for services could be stable and predictable enough to meet these commitments. Paradoxically it will be easier to give forward commitments for more marginal expenditure, and instability could therefore strike directly at major scheme spending where it would be most damaging.

I am, however, content for our officials to continue working on the details. Though I doubt that a full "dry run" of allocations procedures will be possible, it seems to me that John Moore's suggestion to try out the system - and the related housing proposals - say up to the point of baseline "gross" borrowing approvals and rules for additional bids, would help considerably. Departments may well find it difficult to make acceptably accurate commitments for later years. In any case there may be alterations in authorities' bidding behaviour when later year commitments are introduced.

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In spite of these difficulties, which I hope will be resolved before the system is implemented, the new system is clearly a major improvement on the present one. The ability to take account of individual authorities' receipts is particularly welcome, and the measures to require repayment of debt and to re-establish a link between receipts and available cash will, I think, encourage greater prudence by authorities.

I am sending copies of this letter to the Prime Minister, other members of E(LF) and to Patrick Mayhew and Sir Robin Butler.

Yours

Paul

PAUL CHANNON

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cc BB
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The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
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2 Marsham Street
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Reeb
w/2

24 March 1988

Jim Smith

CONSULTATION ON LOCAL AUTHORITY CAPITAL EXPENDITURE AND FINANCE

with PG?

Thank you for sending me a copy of your minute of 15 March to the Prime Minister attaching the draft of a consultation paper on the proposed new local authority capital control system.

I am content with this draft and am glad to note the reference in the Annex to borrowing approvals for each main service, including education. We shall of course need to ensure that the new system is operated in such a way as to support our policies for the different services. I have some worries, for example, about the impact of housing receipts under the policies we are discussing in E(LF) both on the total available for borrowing approvals and on an equitable distribution of those approvals between authorities to meet the essential basic needs for education. We shall need to resolve these questions in due course.

In the meantime the sooner we consult, the better.

I am copying this letter to other members of E(LF), to Patrick Mayhew and to Sir Robin Butler.

Jim Smith
Smith

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NBAM

PCCB
w/3QUEEN ANNE'S GATE
LONDON SW1H 9AT

24 March 1988

Dear Secretary of State

NEW LOCAL AUTHORITY CAPITAL CONTROLS

Thank you for sending me a copy of your minute to the Prime Minister of 15 March. ^{WITH PG.?}

I am content with the proposal to publish the consultation paper. I propose, after due consultation with your own and other interested Departments, to issue a complementary consultation document about the treatment of the Home Office services.

Copies of this letter go to the Prime Minister, other members of E(LF), Patrick Mayhew and Sir Robin Butler.

Yours sincerely
N. Sanderson

(approved by the Home Secretary and signed in his absence.)

The Rt Hon Nicholas Ridley, MP



NBPM

PRC 6

24/3

CC/PSG

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

The Rt Hon Nicholas Ridley MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
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 SW1P 3EB

93 March 1988

Dear Nicholas,

**LOCAL AUTHORITY CAPITAL EXPENDITURE AND FINANCE:
 DRAFT CONSULTATION PAPER**

I have seen your note of 15 March to the Prime Minister seeking agreement to the publication of a consultation paper on a new capital control system for local authorities. The draft attached to your note incorporates some important changes from the version agreed in E(LF) last year. But on the whole I welcome your attempt to balance the necessary improvements in control with some benefits for local authorities. The promise of increased stability for planning and freedom from controls over use of revenue and receipts not required for debt redemption should be well received. I would support your proposal to issue this now as a consultation paper.

Having said that there remain some important gaps in our understanding of how these proposals will work in practice. I am particularly concerned about the possible implications for PSS capital expenditure of the new arrangements for local authority housing you have recently proposed. More work is needed to assess the extent to which these two sets of proposals will interact.

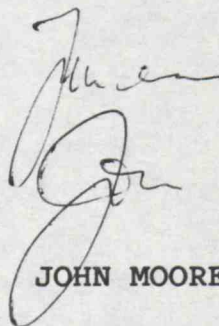
The way local authority capital spending is handled in PES may also need to change substantially to take account of these new arrangements. Previous PES rounds have underlined the inflexible and unsatisfactory nature of current arrangements but we must take early steps to test the PES implications of these new proposals. I

E.R.

suggest that officials be instructed to take the opportunity, of the coming, final run of the current system to undertake as an in-house exercise, a parallel 'dry run' of the new arrangements. This will enable us to see clearly whether these proposals will work sensibly - or whether changes are needed - before the necessary legislation is enacted.

The proposal to provide authorities with a clear indication of the amounts they can expect to receive in later years is important. I welcome it. For PSS, changes will be needed in the methodology we currently use to distribute allocations and it may be that we will need to introduce more formal planning arrangements. But that is a wider issue which we intend to consider in the context of Sir Roy Griffiths' report on community care.

I am sending copies of this to the Prime Minister, other members of E(LF) and to Patrick Mayhew and Sir Robin Butler.



JOHN MOORE

