



10 DOWNING STREET

THE PRIME MINISTER

29 January 1980

Dear Horne,

Thank you for your letter of 17 January about the Local Government Planning and Land Bill. I understand your worries about block grant and capital expenditure but I think it important to understand what we are proposing to do.

You suggest that our block grant proposals represent a sledge-hammer to crack a nut and will be indiscriminate in their effects. I cannot accept this. This Government, with its commitment to cutting public expenditure, cannot stand by and allow a minority of authorities to maintain extravagant spending policies which pay no regard to the nation's economic circumstances. And we certainly cannot sustain a rate support grant system which actually gives more grant to those authorities at the expense of the prudent majority. You suggest that we should try to devise some means of singling out individual over-spending authorities year after year for special treatment. This would pose enormous practical difficulties and would be far more arbitrary than block grant. It would also breach the principle that the grant should be distributed in accordance with general principles.

The problem caused by overspending authorities is not the only reason for introducing block grant. The current arrangements heavily obscure the role of central government grants in local finances and provide no indication for the ratepayer as to whether his authority's expenditure is reasonable or not. Block grant will mean considerable changes in this respect. It seems to me that in opposing block grant, local government is in danger of appearing unwilling to face increased

/accountability

WB

accountability to its electors.

On capital expenditure, as you know Michael Heseltine saw Richard Brew and explained personally the radical revisions which we have made. I hope that the announcement has reassured you that the Government is not simply imposing new bureaucracy-inspired control on local government. On the contrary local authorities will have a freedom that they have never had before to determine their own priorities for capital spending. There are really only two exceptions to this - a ceiling on an authority's total capital expenditure and special treatment for schemes of national or regional importance.

As examples of this freedom, local authorities may use their capital expenditure allocations for any service or purpose they wish. They will be able to use capital receipts from the sale of assets (including 50 per cent of housing receipts) as they wish. Project controls will be very substantially reduced: Michael Heseltine has already announced the scrapping of Parker Morris standards and the housing cost yardstick.

Even the control on total capital spending will not be operated rigidly. Each authority will have a duty to keep its spending within set limits but overspending will not be unlawful unless a direction has been made saying that a local authority must not exceed its ceiling without consent. Such a direction would not be made unless absolutely necessary - certainly not in the case of marginal or accidental overspendings. Indeed Michael has said that no authority need fear having a direction made against it if it genuinely tries to keep within its ceiling.

We have to keep a control on total spending because of our duty to secure a proper balance in the use of capital resources between the public and private sector and between individual local authorities. Within the constraints imposed by this we are going further than any previous government in increasing the power and responsibility of local government in relation to capital spending and reducing interference by central government. I hope our friends in local government appreciate this.

Sir Horace Cutler, O.B.E.

*Yours
Raymond*