C.P.(55) 132

20th September, 1955

CABINET

LOCAL AUTHORITIES CAPITAL EXPENDITURE

Memorandum by the Chancellor of the Exchequer

The capital expenditure of local authorities (United Kingdom) is nearly £600. millions a year - one-quarter of total investment. This is an element of decisive importance in the programme of anti-inflationary action.

2. The measures to deal with it are:

(a) The reduction in subsidised housing.

(c) Stabilisation of local authorities other capital expenditure at the 1954-55 level.

(c) Certain changes in the conditions under which local authorities borrow from the Public Works Loan Board (P.W.L.B.).

3. These are complementary, and should work effectively without subjecting the local authorities to more detailed control from the centre and weakening their financial responsibility and discretion.

Housing

4. This is nearly 65 per cent of the authorities total capital expenditure. It may be helpful if I set out my views on the proposals of the Minister of Housing and Local Government.

5. I agree with the rates of subsidy of £24 and £10.

6. I agree also with the freeing from allocation, on the understanding that a watch is kept so that if the numbers are likely to exceed a certain figure, the alert is sounded and prompt action taken, either by reduction of the subsidy or otherwise. It is important to be clear on this limitation, and in my view it would give unnecessary hostages to fortune to give the public the impression of unlimited freedom.

7. On the numbers proposed by the Minister, I agree that the output of subsidised houses should be reduced as quickly as possible to 120,000 (England and Wales). But I cannot agree that this should be regarded also as a minimum and further action (presumably an increase
of subsidy) taken if output tended to fall lower. Our political commitments
on slum clearance, etc., do not imply an output of more than 100,000 and
I see no valid case for going beyond this.

8. I agree also that we should let the total output of houses (Great
Britain) fall to 270,000, but I should again feel that it would be dangerous
to begin regarding this as a minimum. I must emphasize that every
20,000 houses represents investment (including ancillary services) of
about £40 millions, and it can be strongly argued that there are other
needs for social investment which would be of much more importance
than marginal houses between, say, 270,000 and 250,000.

9. I conclude therefore that our aim in subsidised housing (England
and Wales) should be a maximum of 120,000 and a minimum of 100,000.

Other capital expenditure

10. I undertook to circulate a draft message to those of my colleagues
who are directly concerned. The re-draft at Annex A incorporates a
number of suggestions which have been made, but I have not of course been
able to discuss points which have been raised. This message would be
sent to every local authority in England and Wales over the signatures
of the Minister of Housing and myself, and to every authority in Scotland
over the signatures of the Secretary of State and myself. It would be
timed to reach the authorities as soon after the statements in Parliament
as possible.

11. The essential point of the message is that the local authority
is asked to review its capital expenditure (other than housing) and that
its aim should be to prevent it from rising above the 1954-55 level. We
are bound to accept the consequence that this may lead to a postponement
of projects which have already been authorised; and it follows that we
have to accept the local authority's judgment of what is most important
in the locality (except where a choice is being made between elements in
the same Department's programme). Some of my colleagues may find
it desirable to issue circulars themselves setting out the priorities to be
followed between projects within their own sphere of responsibility.

12. Some authorities are likely to find it easier than others to
comply with this request; the decline in housing will have considerable
effects upon the demand for other capital expenditure (e.g., water and
sewerage), and this will in many cases make it easier to expand other
parts of the programme. A preponderant part of the expenditure of
County Councils, however, is on educational building. I am aware of the
public pronouncements made by the Government, especially on rural
re-organisation. I hope to discuss with the Minister of Education the
possibility of authorities delaying the least urgent part of their educational
building programmes in order to comply with the terms of the message.

13. A table in Annex B shows the distribution of local authorities'
capital expenditure in England and Wales; these are totals for the whole
country covering all types of authority.

14. Some of my colleagues have suggested that certain items of
expenditure should be excluded from this message, on the grounds that
national programmes have already been authorised. While I appreciate
the force of the arguments put forward, I feel that the exclusion of important elements would frustrate the purpose of the message. Housing is excluded because housing is a declining programme; if we excluded the expanding programmes also, there would be no further point in the message.

Public Works Loan Board

15. I propose to ask the P.W.L.B. to confine their lending to authorities which cannot borrow on the stock or mortgage markets, and to lend at rates based not on Government but on local authority credit. I have circulated a separate paper explaining this measure in detail (C.P. (55) 131).

Conclusion

16. To sum up, these three series of measures - reduction in subsidised housing, stabilisation of other expenditure, and change in conditions of lending - are all parts of our approach to the problem of local authority capital expenditure. My colleagues will be taking decisions on housing and P.W.L.B. separately.

17. I ask my colleagues' agreement accordingly to arrange, in consultation with the Secretary of State for Scotland and the Minister of Housing and Local Government, for the distribution of the message at Annex A to all local authorities.

R.A.B.

Treasury Chambers, S.W.1.

20th September, 1955.
1. Reference to Chancellor's statement and (in England and Wales) to Minister of Housing's statement about housing policy.

2. We are writing to you, and to all other local authorities, on behalf of the Government to ask you to undertake an immediate review of your capital expenditure for the period from now to 31st March (Scotland, 15th May, 1957). We also ask you to review your current expenditure in order to secure economies wherever possible, and to refrain, save in cases of exceptional need, from undertaking new services which will involve additional expenditure either from Government grants or from the rates.

3. The reason for this request is that in recent months it has become clear that the productive resources of the nation are carrying too heavy a load. The consequence of this is seen in the upward movement of costs and prices at home, as well as in the pressure on sterling abroad.

4. The Government's policy is designed to bring the total demand within the capacity of the nation's productive resources. It has always been recognised, from the Full Employment White Paper of 1944 (Cmd. 6527) onwards, that the maintenance of full employment involves a continuing process of adjustment, particularly in the capital expenditure plans of public authorities, in order to keep the economic affairs of the country on an even keel.

5. The aim should be to ensure that your authority's capital expenditure (other than on housing) in each of the years 1955-56 and 1956-57 does not exceed that of 1954-55, and that within this limit no new works, even those already authorised, are undertaken unless your authority are satisfied that these works are urgently necessary to meet the needs of the area. For some authorities with special problems, particularly those with rapidly expanding populations, some increase of capital expenditure above the 1954-55 level may be inescapable. Some authorities, on the other hand, may well be able to secure a reduction in their capital expenditure below the level of 1954-55.

6. In this process of review, questions of the priority to be given to the claims of different services are bound to arise, and should be decided in the light of the local circumstances in your own area. Where there are considerations of national policy which should be taken into account in choosing between projects within the field of responsibility of one Government Department, you will be informed by the Department. The Departments will not press local authorities to provide services of a more expensive standard than the authorities would regard as being necessary in the light of local conditions.

7. It is appreciated that to give effect to the requests in this message may result in the postponement of improvements which local authorities would like to make in the standards of their services. But the essential condition for all future progress is to secure and maintain the nation's internal and external economic stability now. Failure to take the necessary action for this purpose would involve a much more serious setback to employment and the standard of living.
**ANNEX B**

**CAPITAL EXPENDITURE: LOCAL AUTHORITIES**

(ENGLAND AND WALES)

<table>
<thead>
<tr>
<th>Category</th>
<th>1954-55</th>
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<td><strong>£ m.</strong></td>
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<tr>
<td>Total</td>
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<tr>
<td>Housing</td>
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<tr>
<td>Other than housing</td>
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<tr>
<td>Education</td>
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<tr>
<td>Water and sewerage</td>
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<td>Land drainage and coast protection</td>
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<tr>
<td>Town and country planning</td>
<td>9.2</td>
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<tr>
<td>Highways</td>
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<td>Harbours, docks and piers</td>
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<td>Public lighting</td>
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<tr>
<td>Private street works</td>
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<td>Police and fire</td>
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<td>Health and welfare and child care</td>
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<tr>
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<tr>
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