

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP  
 Secretary of State for the Environment  
 Department of the Environment  
 2 Marsham Street  
 London  
 SW1

NBP? at this stage

8 April 1986

*Doc Kenneth,*

**DEFERRED PURCHASE SCHEMES**

As I mentioned to you this morning I am increasingly concerned about the way in which some local authorities are using deferred purchase schemes to flout both our capital and current control systems.

One specific example of this was brought to my attention last night when I dined with the Yorkshire and Humberside Chamber of Commerce. The Chief Executive of the Sheffield Chamber of Commerce handed me an internal Sheffield City Council's Memorandum outlining a scheme entered into by Sheffield which effectively allows them to get around the capital control system now but stores up anguish for their ratepayers. It was very forcefully represented to me last night that the Government should take urgent action to stop this patent abuse.

The Sheffield scheme is, of course, only one of a growing number. There have been recent reports of schemes in Islington and Manchester. I know that such schemes are not new but they do threaten the credibility of our rate capping and capital control powers.

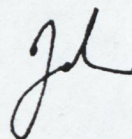
I believe we must seek the earliest possible opportunity to legislate to put an end to these schemes. I realise that one vehicle would be next Session's Local Government Bill, in which we will be enacting proposals for a new local government capital control system. But I am anxious to explore the possibility of earlier action - to stem the tide now.



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I am copying this letter to the Prime Minister,  
Viscount Whitelaw, members of E(LA) and Sir Robert Armstrong.

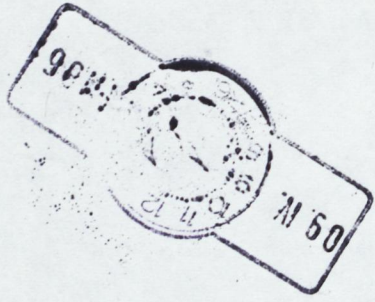
Yours ever,



JOHN MacGREGOR

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10 DOWNING STREET

*From the Private Secretary*

25 April 1986

Dear Robin,

**DEFERRED PURCHASE SCHEMES**

The Prime Minister has seen reports of the deferred purchase scheme entered into by Islington Council. She is also aware of the correspondence on possible legislation to prohibit deferred purchase schemes which was initiated by the Chief Secretary.

The Prime Minister shares the Chief Secretary's concern about the growing use of these schemes, and would be grateful for an assessment of their scale and for the prospects of further increases in their use as a means of avoiding the Government's expenditure controls. She would I am sure also find it helpful to have an assessment of what might be done to prohibit or discourage them in the period before it becomes possible to legislate. Would it, for example, be possible to announce the Government's intention to legislate, saying that the legislation would be effective from the date of the announcement?

I am copying this letter to the Lord President, members of E(LA) and Sir Robert Armstrong.

Yours,  
David.

(David Norgrove)

Robin Young, Esq.,  
Department of the Environment.

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NEW ST. ANDREW'S HOUSE  
ST. JAMES CENTRE  
EDINBURGH EH1 3SX

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The Rt Hon John MacGregor OBE MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

26 May 1986

Dear John,

#### DEFERRED PURCHASE SCHEMES

I am writing to register my interest in the correspondence about deferred purchase schemes which began with your letter of 8 April to Kenneth Baker.

The position in Scotland is that we have the power to control the use of deferred purchase schemes by administrative means, through the terms of our annual capital expenditure consents to local authorities, because of the more general nature of my statutory powers compared to those governing capital expenditure control in England and Wales. We have been obliged, with Treasury agreement, to treat deferred purchase schemes in a way which is broadly comparable to the position south of the border. However, the administrative nature of my controls allows me to operate these arrangements in such a way as to prevent abuses.

Until recently there has been very little interest in deferred purchase schemes among Scottish authorities. However, indications towards the end of last year of interest by Glasgow, and a few smaller authorities, led me to make a restatement of our policy in March of this year. Although this included the introduction of further controls on the use of such schemes, it coincided with the issue of new capital expenditure consents for 1986-87 and has been accepted by authorities as part of the normal process of annual review of the terms of these consents.

I will, of course, want to look again at the position in Scotland in the light of whatever decisions are reached about restrictions on the use of deferred purchase in England and Wales. I would reflect any changes which may be necessary in the terms of capital expenditure consents for 1987-88, assuming that the changes in England and Wales are implemented by April 1987.

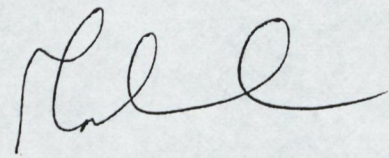
My intention in writing now is simply to remind you and Kenneth Baker of my separate interest, in order that any announcement does not inadvertently fail to distinguish the position in Scotland from that in England and Wales. I would want to make a separate announcement once I had been able to consider, and discuss with you, the implications of whatever changes are introduced in England and Wales.

AEP13901



I am copying this letter to the Prime Minister, other members of E(LA) and  
Sir Robert Armstrong.

*Yours ever,*



MALCOLM RIFKIND



LOCAL COURT  
RELATIONS  
PT 29





CABG



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

12 May 1986

Dear David,

at Map.

Thank you for your letter of 25 April about local authority deferred purchase schemes.

The total value of such schemes on which we have any hard information is of the order of £½bn over the life of the present capital control system, though there can be no guarantee that our information is complete. No more than a few dozen authorities have been party to such schemes. The device was originated under the previous borrowing approval system to enable small to medium size authorities to achieve one-off schemes of local importance, and until recently its use had been limited to that sort of purpose. It had been used by authorities at all points on the political spectrum.

The worrying extension of the device is a recent phenomenon. It has been realised that it can be used to provide authorities with a pre-arranged financing facility to be applied to any number of schemes within their capital programme so that the schemes do not immediately have to be scored against capital allocations. The major deals appear to be: Lewisham £130m, Sheffield £100m, Manchester £100m, Islington £74m, Liverpool £30m. The expenditure from these schemes is likely to be spread over more than one year in many cases. Deferred purchase does not permit an increase in capital spending over time; in fact it reduces it, because interest charges have to be scored as prescribed expenditure under these deals. But the big deals have enabled the authorities concerned to undertake much more expenditure in the short term, and there are definite indications - made explicit by Margaret Hodge in the Islington case - that the authorities are giving little consideration to how they will accommodate the figures within their spending limits for later years.

A related but less-used device is advance purchase, which is the reverse of deferred purchase in that the authority pays for works in advance of their being carried out. The most publicised of these schemes was that which the GLC entered into a few days prior to its abolition ("the Satman scheme"), under which they made advance payments of £76m for housing renovation projects. The GLC-appointed director on the Satman board is obtaining legal advice on the validity of the scheme. If it does proceed, he will also be obliged to consult the London Residuary Body and the London Boroughs before proceeding with particular projects.



The intention to stop these loopholes as part of the move to a gross expenditure control system was clearly signalled in our recent Consultation Paper. There was also a flurry of activity a few weeks ago following City rumours that there would be an early announcement with immediate effect. So the spate of recent announcements of such schemes to anticipate any clamp-down may now tail off, although there may be others to come following the local elections.

My Secretary of State shares the Prime Minister's concern. He pointed out in his letter of 28 April to the Chief Secretary, which you will have seen since you wrote your letter, that it would be possible to backdate a bar on such schemes to the time of an early announcement. But it would be premature to act on one issue on capital before wider decisions are taken following the recent consultation exercise. He will be making proposals about the control system more generally very shortly.

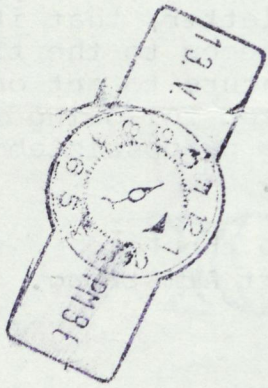
I am copying this to the Private Secretaries to the Lord President, other members of E(LA) and Sir Robert Armstrong.

*Yours,*

*RU*

R U YOUNG  
Private Secretary









2 MARSHAM STREET

LONDON SW1P 3EB

01-212 3434

My ref: B/PSO/13645/86

Your ref: B/PSO/13768/86

Prime Minister 2

My letter regarding your  
concern seems (surprisingly) to  
have crossed with this. The reply  
should give information to decide  
whether the timetable here - X below -  
is quick enough.

28 April 1986

Jim Mann.

DLS 29/4.

Thank you for your letter of 8 April about local authority  
deferred purchase schemes. I have also seen Willie Whitelaw's  
letter of 11 April, and your reply of 16 April.

I share your concern about the use of deferred purchase schemes  
by authorities who are prepared to mortgage their future capital  
programme for short-term advantage, and I incline to your  
view that legislation is required to stop such abuses. On  
the other hand, we have to bear in mind that a good many moderate  
authorities, including some of our own supporters, have found  
schemes of the same form, but very much more modest in scale,  
a convenient way of securing a one-off project which is large  
in relation to their capital allocations for a single year.  
We shall also have to ensure that any legislation does not  
impede normal contractual practices, under which final payments  
may be made a long time after completion of the works.

As to timing, I note what Willie says, and I see that you  
accept it. I would have wanted in any case to resist the idea  
of legislation this session. Restraint on deferred purchase  
is one of the ideas put forward in our consultation paper  
on the future of the control system. As soon as we have analysed  
the responses to that consultation, I shall be bringing forward  
to colleagues my proposals for the timing and content of legislation.  
Action on a particular aspect in advance of that wider consultation  
would be premature.

This does not necessarily mean allowing deferred purchase  
to continue until we can get Royal Assent to a Bill next session.  
If we decide to legislate to stop such schemes, we could backdate  
that provision to the date of an announcement, which could  
be before the Summer Recess. We took just such steps to block  
major mortgage refinancing deals last summer.

/ I am copying this to the Prime Minister, Willie Whitelaw,  
the other members of E(LA) and Sir Robert Armstrong.

KENNETH BAKER



Local Govt: Relations

PE 29





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CPS



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Viscount Whitelaw PC CH MC  
Lord President of the Council  
Privy Council Office  
Whitehall  
London  
SW1A 2AT

W/BAN

16 April 1986

Dear Willie,

**DEFERRED PURCHASE SCHEME**

Thank you for your letter of 11 April following mine to Kenneth Baker of 8 April. <sup>attached</sup>

I do think this growing abuse is a serious problem, which we must deal with at the earliest possible opportunity. But I fully understand your concern about the present Session's legislative programme.

The longer the delay of course the more the scale of the abuse is likely to increase. This makes it very important that we do deal with it within the provisions on local authority capital expenditure controls in the Local Government Bill in the 1986-87 session, as already envisaged.

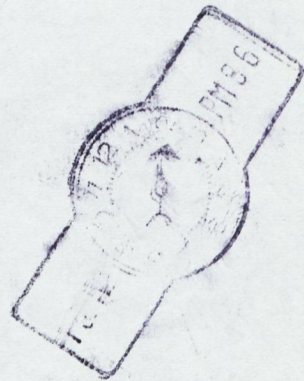
I am sending a copy of this letter to the Prime Minister, the members of E(LA) and to Sir Robert Armstrong.

JOHN MacGREGOR

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LOCAL GOVT: Relations







CEBG

PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

11 April 1986

Dear Kim

1. ~~RF~~
2. ASBN

**DEFERRED PURCHASE SCHEME**

In your letter of 8 April to Kenneth Baker, you suggested that the problem of local authorities using deferred purchase schemes to circumvent capital and current expenditure controls was now so acute that we should explore the possibility of introducing legislation on the matter in the present Session.

While I do not want to question your diagnosis that there is a serious problem here, I think I should make it clear with no more ado that, in my view, there is simply no possibility of introducing any more contentious legislation in the present Session, unless it is absolutely essential and of the first order of importance. As I mentioned in my minute to the Prime Minister yesterday, the legislation that we shall require in order to deal with the Birmingham court case may itself have serious consequences for the management of the present Session's programme, and I really do not think that we can contemplate any further disruption.

I am sorry to sound so bleak, but I am merely describing the realities of the situation as I see them.

I am sending a copy of this letter to the Prime Minister, the members of E(LA) and to Sir Robert Armstrong.

The Rt Hon John MacGregor MP



Local Govnt: Rets Pt 29.

