



The Rt Hon John Major MP  
 Chief Secretary  
 HM Treasury  
 Parliament Street  
 LONDON  
 SW1P 3AG

2 MARSHAM STREET  
 LONDON SW1P 3EB  
 01-212 3434  
 My ref:  
 Your ref:

070 RA  
 Note  
 Tsd Debarred bank (Ave)  
 Not PM did not wish to  
 interfere. Rec'd  
 11/7

Price Mike  
 Contact to let  
 DOE and Treasury  
 set this out?

7 July 1988

Rec'd 8/7

Dear John

Yes

#### SPECIFIC GRANTS TO LOCAL AUTHORITIES ON LOAN CHARGES

I am writing to seek your approval for a brief provision in next session's Housing and Local Government Bill enabling me to capitalise specific grants to local authorities.

The Exchequer makes a wide range of specific grants to local authorities to defray the costs of capital projects the Government wishes to encourage. These include Home Improvement Grants, assistance for owners of defective housing and the Urban Programme. Many of these grants, including those mentioned, are paid by annual payments towards the loan charges of local authorities. This method of annual payment is administratively complex and poor for accountability. Grant payments continue many years after the spending to which they relate. The position is set out in more detail in the attached note.

I propose therefore to take action as follows through a new enabling power in next session's Bill. From 1 April 1990 all specific grants on new capital spending by local authorities would be paid as capital sums, not on an annual loan charge basis. The various different entitlements to loan charge grants from spending before that date would be consolidated into a single capital entitlement and then capitalised local authority by local authority as rapidly as can be achieved without adding to their spending power or to public expenditure. These capitalised payments would substitute for, not add to, the credit approvals we shall be issuing under the new capital control arrangements about which we are shortly to consult.

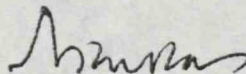
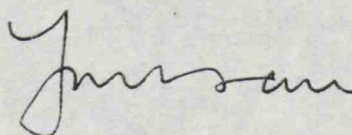
Although the power would be a general one the only grants affected in England are those for which I am anyway responsible. Peter Walker may wish to act similarly in Wales, and I would propose that the power covered both countries. I do not propose that the power should cover those grants that are paid by other Departments towards a service as a whole (such as probation) covering both current and capital expenditure.

The proposal will be public expenditure neutral and we shall ensure that the effect on individual authority's capital and current spending is also neutral. It should bring administrative savings for local authorities and their auditors. I hope it will be welcomed by them.

As paragraph 2(e) of the attached note sets out, the present practice of payments towards loan charges would not sit easily with the proposal for a new planning total which would include capital grants and credit approvals. Though I would want to make the change anyway, the new planning total would greatly strengthen the case for it. I propose that we announce the proposal for specific grants later this month. Consultation between my officials and local authorities could follow publication of the proposals on the new planning total, should we have decided to proceed on that as well.

We shall need to undertake further detailed work, especially on the arrangements for capitalising pre 1 April 1990 entitlements, in the light of consultation and also of the headroom that will be allowed by credit approvals under the new capital arrangements. I would however be grateful for your agreement in principle now so that we can proceed to consultation and to the drafting of the necessary enabling powers.

✓ Copies of this letter go to the Prime Minister and all other members of E(LF) Committee and I would be grateful for their and your agreement by 13 July.



NICHOLAS RIDLEY

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ANNEX TO E(LF) LETTER

## SPECIFIC GRANTS TO LOCAL AUTHORITIES ON LOAN CHARGES

### Background

1. The Exchequer makes a wide range of specific grants to local authorities to defray the costs of capital projects the Government wishes to encourage. There are two models for the payment of such grant:

- a) Single capital payments: these effectively reduce the amount the local authority need to borrow to finance the project;
- b) Annual payments towards loan charges: the local authority borrows the full capital costs of the project, but the Exchequer reimburses a proportion of loan charges.

### The Problem

2. Grants paid in support of capital spending on the basis of annual loan charges are less satisfactory than those paid as a single capital sum:

- a) they are more complex to administer and pay, requiring in particular considerable work for local authorities and their auditors in preparing and certifying claims;
- b) they must continue to be paid for many years into the future, even after a grant has been abolished on the expenditure ceased;

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- c) they present considerable difficulty in estimating provision, particularly in those cases where interest rates are variable.
- d) they reduce financial accountability because Exchequer grant bears no relation to activity in the year in question;
- e) they potentially create a public expenditure double count under the proposed new planning total. Where a local authority incurred capital expenditure, both the borrowing and the grant towards the loan charges would score - unless the latter were treated differently from other Exchequer grants and excluded from the total.

The Solution

3. For capital spending post 1 April 1990, it is proposed that all grant paid in respect of capital spending incurred after that date should be paid as Capital Sums not on an annual loan charge basis. These would count within the planning total. This would not add to public spending or local authority spending power because credit approvals will be set at a level which allows for capital grants.

4. For capital spending pre 1 April 1990: it is proposed to take action in two stages:

- a) all existing annual entitlements to grant under various Estimates subheads will be consolidated into a single annual entitlement under one Vote - so that historic entitlements are kept separate and simplified. These will fall outside the planning total;

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b) these annual entitlements will be gradually commuted, local authority by local authority, into capital sums. These capitalised payments will score against local authorities' credit approvals, and thus will not give additional spending power. The process will be carried out as rapidly as possible, the only constraint being the headroom allowed by credit approvals.

5. In both cases the proposal relates only to grants paid solely on loan charges, not to hybrid grants payable also on other current expenditure.

6. There would be a brief enabling power in the Housing and Local Government Bill, under which subsequent orders would be made to convert the grants.

CCP



R/S

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

rbpm

The Rt Hon John Major MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

29 July 1988

Dear John

Thank you for your letter of ~~18~~<sup>19</sup> July agreeing in principle to proceeding with the capitalisation of specific grants to local authorities.

You raised a number of points to which you attach importance. There is no difference between us on these, and my officials will continue to work closely with yours in developing the detailed arrangements. All your concerns have been reflected in the terms of the consultation paper which is being issued this week, and I understand that you have yourself seen and agreed the text.

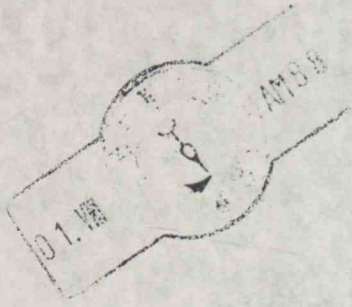
A copy of this letter goes to the Prime Minister and other Members of E(LF).

A handwritten signature in cursive script, appearing to read "Nicholas Ridley".

NICHOLAS RIDLEY

LOCAL GOVT: Relations

PTD



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MBM  
R26  
18/7

Treasury Chambers, Parliament Street, SW1P 3AG

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

18 July 1988

Dear Secretary of State

**SPECIFIC GRANTS TO LOCAL AUTHORITIES ON LOAN CHARGES**

Thank you for your <sup>attached</sup> letter of 7 July.

I agree in principle with your approach to the reform of capital grants to local authorities, which reflects discussion between our officials.

A significant corollary of your proposals is that there would be extremely little borrowing by local authorities over the next few years. We would in effect be substituting central Government for local authority borrowing. My provisional view is that this aspect is acceptable, though the implications for the money markets and the PWLB would be considerable. There are, however, a number of other points to which I attach particular importance.

First, we shall need to ensure beyond a peradventure that the public expenditure effects of the proposals will genuinely be favourable or neutral.

Second, there are (as your letter recognises) a considerable number of important loose ends which officials will need to examine intensively, even though not all of them will need to be finally resolved ahead of the consultative paper. These include:



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- a. the method of calculating the net present value of the Government's existing loan charges commitments, notably the choice of discount rate, the treatment of variable interest rate obligations and the treatment of hybrid grants (Douglas Hurd has already drawn attention to this last point);
- b. the arrangements for subsequent adjustments to capitalised grant entitlements on account of unresolved disputes with local authorities or variations in the timing of payments of the capitalised grants;
- c. the treatment of authorities who will not be net borrowers and will therefore not have credit approvals, including the possibility of negative credit approvals to be used for debt redemption or set aside for future capital requirements: I would hope that we could find ways of winding up the present grants for all authorities as soon as practicable; and
- d. the possible need for adjustments to debt GREs in the new RSG system so as to avoid compensating local authorities twice over.

I look forward to seeing a draft of the consultative paper which you propose to issue towards the end of the month.

I am copying this letter to the Prime Minister, and other members of E(LF) Committee.

Yours sincerely

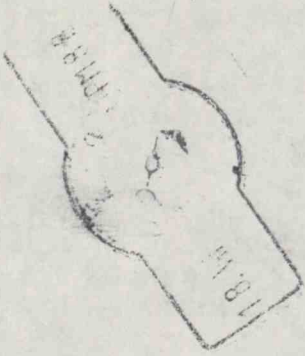
Conys Evans

PP

JOHN MAJOR

(Approved by the Chief  
Secretary and signed  
in his absence)

LOCAL GOV'T: Relations  
Pt 35



ccgo



WYDDFA GYMREIG  
GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel 01-270 3000 (Switsfwrdd)  
01-270 (Llinell Union)

Odi h with Ysgrifennydd Gwladol Cymru

WELSH OFFICE  
GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-270 3000 (Switchboard)  
01-270 (Direct Line)

From The Secretary of State for Wales

NBPM  
PCCO  
14/7

The Rt Hon Peter Walker MBE MP

CR

14 July 1988

Dear Secretary of State

**SPECIFIC GRANTS TO LOCAL AUTHORITIES ON LOAN CHARGES**

I refer to your letter of 7 July to John Major, copied to members of E(LF). *file with PG*

I agree in principle that we should seek to capitalise these grants, and I am content that we should proceed quickly to consultation with the local authority associations.

The proposed legislative powers, to be contained within the Housing and Local Government Bill, should extend to England and Wales, and I am content for drafting of the necessary enabling powers to proceed.

I am copying this letter to the Prime Minister and other members of E(LF) Committee.

Yours sincerely  
*JD Gordon*

Approved by the Secretary of State  
and signed in his absence

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

LOCAL GOVT Relations PT35

14.11  
PM88



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

*cc B/G*

*NBA*

*REC*

*14/7*

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

13 July 1988

*Nicholas*

SPECIFIC GRANTS TO LOCAL AUTHORITIES ON LOAN CHARGES

Thank you for your letter of 7 July detailing your proposals for ending the payment of specific grants by loan charges. <sup>with pg?</sup>

I agree that the proposals should bring clear advantages and therefore I support their inclusion in the Housing and Local Government Bill. I also welcome the fact that the capitalisation of past grants will not count against the planning totals for future years.

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

*John Moore*

JOHN MOORE



CCP/

QUEEN ANNE'S GATE LONDON SW1H 9AT

NRBM

13 July 1988

REC  
(4/7)

Dear Nicholas,

Thank you for copying to me your letter of ~~7~~<sup>14</sup> July.

As they stand, the proposals described in your letter cover only capital grants and I would be content with them. My concern relates to the grants which the Home Office provides towards whole services, covering both current and capital expenditure. I think it is right to leave such grants out of the proposals at this stage. A switch to lump sums would raise more complex practical problems, particularly where there are no project controls and where grant is not cash limited. My officials are however considering what the implications of a switch would be, taken together with the new capital controls system and our consideration of cash limiting some of our grants. They hope shortly to be in touch with DOE and Treasury officials to take this work forward. Meanwhile, I should be grateful if the legislation could be so drafted as to permit the service grants to be covered. Consultation can be carried out separately by the Home office once the Departments reach agreement on the best way forward.

I am copying this letter to recipients of yours.

Yours,  
Douglas

The Rt Hon Nicholas Ridley, MP

LOCAL GOVT : Relation PT35





ccBG  
SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

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

NBRM

RRC6

14/7

13 July 1988

Dear Nicholas,

**SPECIFIC GRANTS TO LOCAL AUTHORITIES ON LOAN CHARGES**

Thank you for letting me see the proposals set out in your letter of 7 July. I have no objection to what you propose.

We have already included provision in the Housing (Scotland) Bill to abolish certain specific housing grants and to capitalise commitments existing on 1 April 1989. We would prefer, however, to go a different route in relation to the treatment of these grants for the future. Rather than pay capital grants, we wish to continue after 1 April 1990 to merge our support with RSG. This is a minor technical complication in relation to the new planning total proposals, but my officials are in touch with Treasury about these.

Copies of this letter go to the Prime Minister and other members of E(LF).

Yours ever,  
Malcolm Rifkind

**MALCOLM RIFKIND**





Local Govt  
Relations

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cc/d



ELIZABETH HOUSE  
YORK ROAD  
LONDON SE1 7PH  
01-934 9000

nbh  
rec  
17/7

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

*Dr. ...*

13 July 1988

SPECIFIC GRANTS TO LOCAL AUTHORITIES ON LOAN CHARGES

*FIG WITH PG*

Thank you for sending me a copy of your letter of 7 July to John Major. I am content in principle with your proposed power to enable you to capitalise specific grants to local authorities. I note that credit approvals will be set at a level which allows for grants and my agreement to your proposal for capitalisation is on the understanding that this will not lead to a reduction in the level of credit approvals available for spending on education.

I am sending copies of this letter to the Prime Minister and other members of E(LF).

*[Handwritten signature]*  
*[Handwritten signature]*

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