

CONFIDENTIAL



*Local Authority Capital  
Related  
MBM  
Feb 13/1*

Treasury Chambers, Parliament Street, SW1P 3AG

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

13<sup>th</sup> January 1989

*Dear Nick,*

**LOCAL AUTHORITY CAPITAL: ARRANGEMENTS FOR 1989 SURVEY**

With the introduction of the new planning total (NPT) and the new local authority capital finance regime in 1990, it is necessary to begin preparing now for this year's public expenditure round by setting in place arrangements for an orderly Survey on local authority capital spending.

Our officials (together with representatives of other interested departments) have already discussed two important elements of the arrangements for local authority capital - the appropriate "currency" for the bilateral negotiations on the central government resources made available to local authorities for capital spending, and the broad timetable for the Survey procedures.

I strongly support the conclusion of our officials that the bilateral negotiations on central government resources should be conducted in terms of the credit approvals for each main department. (Officials are still to consider the other source of central finance within the NPT - capital grants.) Credit approvals are defined in legislation as the resources which local authorities can borrow or raise in credit; they are relatively simple to understand and present; and they will be featured in the new planning total directly.

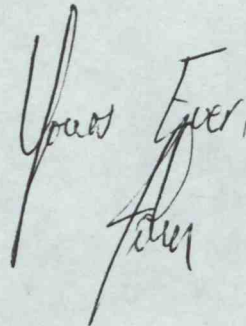
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I am aware that officials in some departments saw merit in conducting the negotiations in terms of annual capital guidelines (ACGs) - total credit approvals plus a measure of expected use of receipts taken into account (RTIA). But as you know ACGs are essentially a distributional device, intended to target credit approvals more closely to relative needs. In my view, they should have no place in what are national negotiations on the central government resources to be made available for each spending programme. A given level of ACGs could have different implications for the LABR as the forecast of receipts to be spent shifted, or we collectively decided to change the percentage taken into account. I do not believe they could provide the basis for a stable and orderly Survey.

I do accept however that ACGs are important to an individual authority. My proposals are concerned with the currency used for negotiations in the Survey: it remains open to departments to consider with my officials how best the results of that Survey can be presented by departments to their local authorities. And it is a feature of the attached Survey timetable for LA capital that departments will be fully aware of the implications for ACGs for their particular service of any level of CAs being discussed during the Survey.

I hope you can agree therefore with my proposal to adopt credit approvals as the main currency for the bilateral negotiations on local authority capital in this year's Survey and that you and . . . colleagues are content with the Survey timetable attached. It will of course be the first year of operating the new planning total; after this transitional Survey, it would be appropriate to review how well the arrangements have served.

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

A handwritten signature in dark ink, appearing to read "John Major". The signature is written in a cursive style with a large initial "J" and "M".

JOHN MAJOR

1989 SURVEY TIMETABLE FOR LOCAL AUTHORITY CAPITAL

February

- (i) provisional total credit approvals and capital grants for England for 1990-91, consistent with the existing baseline gross provision would be agreed;
- (ii) a starting assumption for RTIA for 1990-91 set by agreeing a percentage figure of (estimated) accumulated receipts up to end March 1989;
- (iii) draft Survey guidelines issued;

May

- (iv) formal baseline provision for credit approvals and capital grants would be set as would RTIAs by department;
- (v) departmental baselines set and projections made of RTIA for years 2 and 3;

August

- (vi) the final RTIA for 1990-91 would be set when the (outturn) information on accumulated receipts as at end March 1989 became available; revised assumptions on RTIA for years 2 and 3 set;

September/October

- (vii) bilateral negotiations would lead to capital grants and credit approvals by departments (for all three years);
- (viii) RTIAs, as distributed by department earlier, added to CAs to form ACGs for 1990-91.

13.1 9 AM-9



GWYDDFA GYMREIG  
GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

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

*Oddi wrth Ysgrifennydd Gwladol Cymru*



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10/3

*CPH*

WELSH OFFICE  
GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

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

*From The Secretary of State for Wales*

**The Rt Hon Peter Walker MBE MP**

CT/6053/89

9 March 1989

*R. Hurd*

**LOCAL AUTHORITY CAPITAL EXPENDITURE: HOME OFFICE SERVICES**

Thank you for copying to me your letter of 15 February to Nicholas Ridley.

I have a direct Welsh Office interest in only 2 of your proposals. First on your suggestion that you would not seek to recoup any portion of the disposal price, where an asset was being released which had originally been acquired by specific grant. I should be grateful if in presenting this you would not undermine my case for making recoupments in similar circumstances when Urban Programme supported assets are disposed of.

Second, I note that you intend to distribute grant and credit approvals for Civil Defence from the Home Office, whilst leaving credit approvals for fire to be distributed, as in the past was the case with allocations, as part and parcel of the unencumbered Welsh Office other services block. I do not object to this in principle but I have asked my officials to discuss with yours whether this might be the opportunity to adjust the relative levels of Fire and Civil Defence provision in Wales.

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

*[Handwritten signature]*

The Rt Hon Douglas Hurd CBE MP  
Secretary of State for the Home Department  
The Home Office  
Queen Anne's Gate  
LONDON SW1H 9AT

LOLA Gou. Relations  
Pt 36



60 W. 2nd St  
MUL



## 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~~ Health

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

NBBM

R206

10/2

16 February 1989

R20

Dear John,

## LOCAL AUTHORITY CAPITAL: ARRANGEMENTS FOR 1989 SURVEY

I have seen your letter of 13 January to Nicholas Ridley setting out your proposals for the conduct of the 1989 Survey in respect of LA capital spending.

I am content for Credit Approvals to form the basis of our discussions in the 1989 Survey, and with the proposed timetable for the Survey. I look forward to the opportunity in due course to comment on the detail of the baselines and the assumptions underlying them.

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

KENNETH CLARKE



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CEPA

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-276 3000

My ref:  
Your ref:

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

NBM  
RC16  
10/2

10 February 1989

Dear Chief Secretary

Thank you for your letter of 13 January about the arrangements for handling local authority capital expenditure in the 1989 Survey. There have since then been further discussions between officials.

I agree that it is necessary in the Survey to reach agreement on the level of credit approvals, because expenditure which is capitalised under the authority of credit approvals will be part of the New Planning Total (NPT). But it will not be possible to disregard Annual Capital Guidelines (ACGs). This is because ACGs are what Departments will be distributing to individual local authorities after the Survey and it will be necessary for each Minister to be satisfied that he has sufficient ACGs for the services for which he is responsible. I understand that our officials have now established that it will not be possible to distribute credit approvals to individual services.

The link between ACGs and credit approvals is of course Receipts Taken Into Account (RTIAs). If we are to have worthwhile bilateral discussions at which you will be able to consider the implications of bids for the NPT and your colleagues can consider the implications for the amounts which they will have available to distribute, then it seems to me to be necessary for the overall level of RTIAs, and their distribution between Departments, to have been settled as cash sums before the bilaterals begin. The conversion between the currency of credit approvals and that of ACGs can then readily be achieved for each service by the equation:-

$$\text{ACG (Housing)} = \text{Credit approval (Housing)} + \text{RTIA (Housing)}$$

and similarly for the remaining services.



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I am content with the timetable which you propose, subject to two points.

First, the RTIA assumptions, whether for 1990-91 or for the later years, should be in terms of cash sums, rather than percentages of anything. That should reduce the need for subsequent adjustments, unless there should be any major change in the forecast of available receipts.

Secondly, when the NPT baselines for years 2 and 3 are set, this should be done on a basis that is consistent with the existing baseline provision in Cm 621 or, in the case of year 3, with that baseline rolled forward. I pointed out in my letter of 24 March 1988 agreeing to your proposals for the NPT that the Treasury's preferred formulation of the NPT implied a rising baseline, because the new capital finance system would progressively reduce "below-the-line" spending power.

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

*Yours sincerely*  
*N Ridley*

*pp* NICHOLAS RIDLEY

*(approved by the Secretary of State  
and signed in his absence)*

ccp

SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-270 3000 (Switsfwrdd)  
01-270 (Llinell Union)



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WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-270 3000 (Switchboard)  
01-270 (Direct Line)

Oddi wrth Ysgriennydd Gwladol Cymru

The Rt Hon Peter Walker MBE MP

From The Secretary of State for Wales

CT/6018/89

6 February 1989

NBRM  
RCCG  
hr

**LOCAL AUTHORITY CAPITAL: ARRANGEMENTS FOR 1989 SURVEY**

You copied to me your letter of 13 January to Nicholas Ridley in which you propose to adopt credit approvals (along with specific grants) as the currency for the bilateral discussions on local authority capital in this year's survey. I have no objection to this.

It does however raise the question of what, under the new system, the basis should be for the Welsh Office's formula consequential. I understand that our officials are in contact about this and until those discussions are complete I must of course reserve my position.

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

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

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LOCAL GOVT: Relations P-136

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*celu*

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

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

*MBlm*

*RCB*

*30/1*

30 January 1988

*John Major*

LOCAL AUTHORITY CAPITAL: ARRANGEMENTS FOR THE 1989 SURVEY

Thank you for sending me a copy of your letter of 13 January to Nicholas Ridley about the arrangements for discussing local authority capital spending in this year's Survey.

I am broadly content with the timetable you propose. There will need to be some discussion between our officials about the handling of the capital element of Education Support Grants for 1990-91. Decisions are needed this spring to give time for the statutory consultation with the local authorities to take place.

Turning to discussions in the Survey, you will know from my comments to Nicholas Ridley last June that I regard it as essential that the Annual Capital Guidelines for education should in aggregate be sufficient to meet the agreed objectives of our present plans - that is to cover the basic need for new schools and for statutory re-organisation schemes as well as a sizeable improvement programme for schools and colleges. I do not accept the view in your letter that ACGs are essentially a distributional device and I shall certainly want to concentrate on the implied ACG total for education in the Survey discussion.

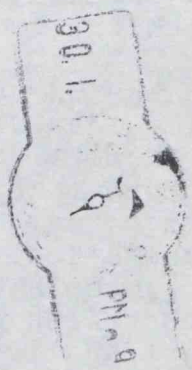
I can see however that there is a problem over negotiating both elements of ACGs in the Survey. Any changes for one service RTIA would necessarily affect other services given the fixed RTIA total. So I am content that we should proceed on the basis of fixed service RTIAs and discuss the level of credit approvals - and the corresponding ACGs - in our bilaterals. As Paul Channon has suggested, we shall need to review the arrangements after the Survey.

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

*[Handwritten signature]*

*Kenneth*

LOCAL GOVT: Kelantan pr 86



CONFIDENTIAL



QUEEN ANNE'S GATE LONDON SW1H 9AT

25 January 1989

MBM

Rec'd

2/1

Dear Tom,

LOCAL AUTHORITY CAPITAL:  
ARRANGEMENTS FOR 1989 SURVEY

Thank you for copying to me your letter of 13 January to Nicholas Ridley.

I see the strength of your argument for using credit approvals as the currency for the 1989 PES discussions. But this will require an appropriate level of credit approvals to be set for individual services as the baseline for the Survey. This is particularly important for the treatment of the joint Fire and Civil Defence authorities. As you know, we have still to come to decisions on a capital control system for my law and order services.

I am content with the proposed Survey timetable. I also agree, as your letter suggests, that we should later review how well this Survey has operated. We are feeling our way with the new arrangements.

I am copy this letter to other members of E(LF) and to Sir Robin Butler.

Yours,  
Douglas.

The Rt Hon John Major, MP.

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Local Govt - Relations. PR 86.

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1986  
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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

My ref.

Your ref.

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

*Dear John*

*NBLM*

*ACG*

*W.*

24 JAN 1988

**LOCAL AUTHORITY CAPITAL: ARRANGEMENTS FOR 1989 SURVEY**

Thank you for sending <sup>me</sup> a copy of your letter to Nicholas Ridley of 13 January.

I understand my officials have already made it clear that I have some misgivings about your proposals; but I am prepared to accept them for the first year. because of the difficulties of setting the baselines.

My concern is that the use of Credit Approvals (CAs) as our "currency" for the bilaterals is inconsistent with their function in the new system as a single control, undivided between services, for each authority. Local authorities remain free to determine how they use their total credit approval between services, so service CAs have no real identity in the new system. On the other hand, as you acknowledge, Annual Capital Guidelines (ACGs) are important not only to each local authority, but also to the Government, as a means of influencing the distribution of expenditure between services and authorities to obtain better value for money and consistency with our own spending plans.

We shall have to agree a forecast of the total receipts local authorities will spend in advance of the bilaterals whether we use CAs or ACGs; and we shall have to take into account the impact both on ACGs and on the across-service control total for CAs. Whichever we use, there will be a £1 for £1 relationship between changes in each, once the baseline assumptions about capital receipts and their use have been fixed. The advantage of using ACGs as the "currency" is that we shall then be considering service requirements in the terms in which I shall actually be giving guidelines to authorities. They are clearly the terms in which the total needs can best be

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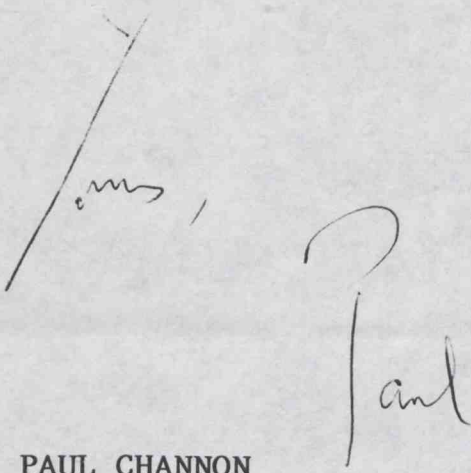
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understood and judged. In doing so, we would still immediately be able to gauge the impact of any change on the planning total because of the £1 for £1 relationship between any ACG and the total CA at the margin once the receipts assumptions had been fixed.

My agreement is influenced by the fact that to establish the new system, we shall have to agree the basis for setting the total for Receipts Taken Into Account (RTIA) - which is the difference between CAs and ACGs - and its distribution between services. However if ACGs were used as the "currency" from the second year onwards, it would not be necessary to allocate the RTIA total between services for each subsequent year. The RTIA service distribution is going to be a difficult decision, so to avoid having to reconsider it each subsequent year is an important advantage of using ACGs from then on.

We shall obviously need to return to this issue before the 1990 PES round. I therefore welcome your acceptance of the need to review the arrangements after the first, transitional, year. Our officials will need to do so by this time next year to ensure there is sufficient time to make any changes to the arrangements that we think may be necessary.

I am sending copies of this letter to other members of E(LF) and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to read 'Paul', is written over the typed name. The signature is stylized with a large initial 'P' and a cursive 'aul'.

PAUL CHANNON

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LOCAL GOVT: Belawan PT36

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AM-9