

CCP



NBM  
RUC  
10/1

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

23<sup>rd</sup> March 1989

Dear Nick,

**TREATMENT OF LOCAL AUTHORITY CURRENT EXPENDITURE  
IN THE 1989 SURVEY**

see num pg

Thank you for your letter of 20 March responding to mine of 2 March. I am also grateful to Kenneth Baker and Douglas Hurd for their comments.

I think we are all agreed that our firm aim should be to decide specific grants so far as we possible can in July and, in the light of our decisions, to settle an envelope for Aggregate Exchequer Finance which remains fixed for the rest of the Survey period. This approach is accordingly reflected in the Survey Guidelines, which have been circulated in draft to Cabinet colleagues.

Colleagues will have noted that the Survey Guidelines envisage that we should take the opportunity in July to discuss the local authority current figures for 1991-92 and 1992-93 as well, though no announcement would be made in July about these later years.

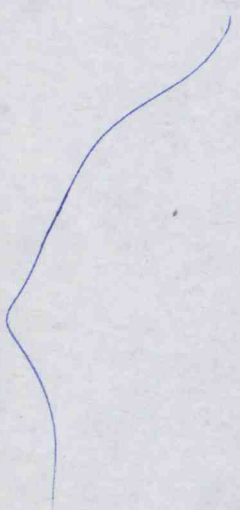
I have also noted the technical points raised by Peter Walker in his 21 March letter, and suggest that we ask officials to take these into account in preparing papers of Ministers.

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

Yours Ever,  
John

JOHN MAJOR

LOCAL GOVT: Kelantan 3/36





cc PM

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  
SW1

NBRM

HLIG

u/s

20 March 1989

Dear John

TREATMENT OF LOCAL AUTHORITY CURRENT EXPENDITURE IN 1989 SURVEY

Thank you for your letter of 2 March responding to the comments on the proposals in your letter to me of 31 January.

FIG WITH PG

As you say, we are all in general agreement about the way we should proceed. I note your view that the funding envelope, once announced in July, cannot be changed. I too would prefer to operate on this basis. We should not start the new system on a note of uncertainty.

The more decisions about specific grants which can be taken before July the better therefore. I must emphasise that, where decisions remain to be taken later, we must be in a position to reach a decision on the envelope in the light of the best possible information of the likely range of outcomes. It will clearly be unacceptable to me to agree a figure for the envelope on the basis of a certain range of likely outcomes, only to have this confounded by the introduction of a new bid or important new information at a later stage. I agree, however, that the level of uncertainty on police grant is something that we can live with.

I think the way is now clear for our officials to sort out the detailed composition of the AERF envelope.

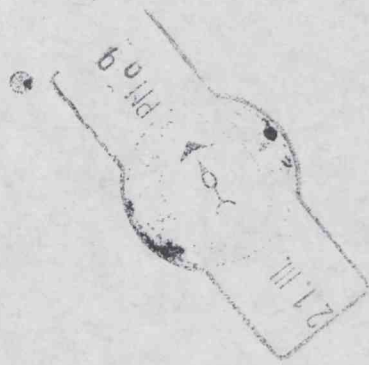
I am copying this letter to the Prime Minister, to members of E(LF) and E(LA) and to Sir Robin Butler.

*Johnson*

NICHOLAS RIDLEY

*Mawla*

LOCAL GOVT: Relations PT36



ce P/C?



NBRM  
- RLCG  
3/3

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

2nd.

March 1989

Dear Nick,

**TREATMENT OF LOCAL AUTHORITY CURRENT EXPENDITURE IN 1989 SURVEY**

Thank you for your 7 February letter in response to mine of 31 January, which proposed arrangements for the handling of local authority current expenditure in the 1989 Survey. I am also grateful to other colleagues for their comments.

I am grateful to you and colleagues for your general agreement to my proposals. I note the points made about baselines and the importance of the decision on the aggregate need to spend. These are things we shall clearly want to consider very carefully during the Survey.

The most significant point which has arisen in the correspondence is Kenneth Baker's suggestion that there may be a need to change the funding envelope in October from the figure announced in July. I have to say that I cannot agree with this. If we are to announce the envelope in July, we must stick to it. Setting one envelope in July and then another three months later is a most unattractive idea and would mean a very bad start to the main public expenditure announcements.

If you and colleagues are concerned that decisions in October on specific grants could exceed expectations and thus lead to changes in RSG within the fixed envelope, I suggest we should aim to decide specific grants, as far as possible, in July. So far as I am aware, there is nothing to prevent this, except possibly in the case of police grant; but even there, the outcome should be clear to within £20-30 million. This is a tiny amount in the context of a funding envelope which is likely to be over £20 billion, and thus would remove any question of reopening the July decision.

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

JOHN MAJOR

John Major

LOCAL GOVT : Kelantan

pr 86



RESTRICTED

*copy*



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-276 3000

My ref:

Your ref:

*NBPM*  
*REC 6*  
*SR*

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

7 February 1989

*Dear Chief Secretary*

TREATMENT OF LOCAL AUTHORITY CURRENT EXPENDITURE IN THE 1989 SURVEY

*WILL REQUEST IF REQUIRED/WITH AC?*

Thank you for your letter of 31 January setting out your proposals for the handling of local authority revenue expenditure in the 1989 Public Expenditure Survey. I agree that we should see how these arrangements work for 1989 before deciding what to do for later years. Subject to one point, I am generally content with what you propose.

I am grateful for your recognition that we cannot simply say nothing to local authorities until October, and that we must have a July announcement. I recognise, however, that there are difficulties in achieving this, which might well point to an October announcement in later years. I shall make it clear to authorities that having a July announcement this year implies no commitment to such an announcement in future. We shall want to encourage them to look to the forward figures in the Public Expenditure White Paper as an indication of the likely future level of Exchequer support, but that does mean those figures will need to be realistic.

The effect of announcing the funding envelope in July but the components in October is that revenue support grant will in effect again be the residual, after final decisions have been made on specific grants and NNDR. I have accepted that this is the best way to proceed. I must emphasise, however, that the July decision on the aggregates will need to be taken in the light of full information on the level of specific grants and any bids. I will also expect to be consulted about decisions on specific grants taken after the July announcement if these have any implications for the level of needs grant.

RESTRICTED

The principles you propose for deciding which grants should be within the July envelope seem to me to be right. I suggest our officials should work out a definitive list. I welcome your proposals that the baselines for the three survey years should be established by uplifting the 1988-89 figures. I hope our officials can agree any necessary adjustments for functional and classification changes.

As you say, it would be appropriate for us to continue to discuss local authority current expenditure collectively. We shall need to consider further the details of papers we shall put forward but you mention the basic material. I envisage that the overview of changing service needs formed in the light of consultations with the local authority associations will be brought together for the Consultative Council on Local Government Finance. I would then be able to put it forward with my assessment, although colleagues will no doubt wish to comment on the position regarding their own services.

I am copying this letter to the Prime Minister, Cecil Parkinson and other E(LA) colleagues and to Sir Robin Butler.

*Yours sincerely*

*RR*

NICHOLAS RIDLEY

*RR*

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





RESTRICTED

*cepa*

SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER

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

*Oddi wrth Ysgrifennydd Gwladol Cymru*



*MBM  
Rc6  
ul3*

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/6065/89

21 March 1989

*MBM*

TREATMENT OF LOCAL AUTHORITY CURRENT EXPENDITURE IN 1989 SURVEY

You copied to me your further letter of 2 March to Nicholas Ridley. I have also seen Kenneth Baker's reply of 8 March.

Even if you do not accept the policy need to vary the Settlement after July, there are technical reasons why the CCSAN figures we quote cannot be definitive. First the population figures we use in July may not accord with the actual figures for the following year; second, depending on the approach we ultimately adopt, the capital elements of our needs assessment may remain provisional until the autumn.

For these reasons alone, then, the CCSANS we quote in July will have to be expressed as ranges and, realistically, those ranges are going to need to be broader rather than narrower. Doubtless we shall return to all of this as the Settlement approaches.

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

*MBM*

The Rt Hon John Major MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON SW1

RESTRICTED

LDAC Gov. Relations

Pt 76





10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

20 March, 1989.

*Dear Carys,***GUIDELINES FOR THE 1989 PUBLIC EXPENDITURE SURVEY**

The Prime Minister was grateful for the Chief Secretary's minute of 15 March. She is content with the proposed guidelines, and has noted that the Chief Secretary will be formally circulating them by the end of the month.

I am sending copies of this letter to the Private Secretaries to the Members of the Cabinet, to Martin Le Jeune (Office of the Minister for the Arts), Myles Wickstead (Overseas Development Administration), Michael Saunders (Law Officers' Department), Alan Maxwell (Lord Advocate's Department), and Trevor Woolley (Cabinet Office).

*Yours,*  
*Paul*  
Paul Gray

Miss Carys Evans,  
Chief Secretary's Office,  
HM Treasury.

CONFIDENTIAL

*EU*



QUEEN ANNE'S GATE LONDON SW1H 9AT

14 March 1989

NBM

Recd  
14/3

Dear Tom,

TREATMENT OF LOCAL AUTHORITY CURRENT EXPENDITURE  
IN 1989 SURVEY

file with PG

Thank you for copying to me your letter of 2 March to Nicholas Ridley.

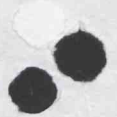
I am prepared to go along with your proposal that we should, so far as possible, seek to settle the amount of specific grant (and the "need to spend" which it implies for my services) before the July announcement. However, as your letter recognises, it may not be possible for me to go firm on figures agreed in July. Later information about spending patterns or pay awards may make it necessary to adjust those figures, not only in respect of the police but in the case of any other specific grant services. (It would certainly be unsatisfactory to settle on public expenditure figures which we knew in advance were inadequate to meet the acknowledged commitments of our public services). I agree that it should be possible to accommodate within AEF specific grant adjustments made later without unduly affecting the level of revenue support grant; but I can offer no assurances that changes in the July figure could be kept within the £20-£30 million window mentioned in your letter.

I am copying this letter to the recipients of yours.

Tom,  
Dygin.

The Rt Hon John Major, MP.

LOCAL GOVT: Relations PT36.



RESTRICTED

*copy*



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

*NBR*  
*PLC6*  
*2/3*

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

8 March 1989

*John Major*

TREATMENT OF LOCAL AUTHORITY CURRENT EXPENDITURE IN 1989 SURVEY

Thank you for sending me a copy of your letter of 2 March to Nicholas Ridley.

I understand why you do not want to contemplate changing the envelope announced in July. I also accept that settling specific grants, as far as possible, by July will remove one of the uncertainties. But we need to bear in mind that the level of community charge is, by our own design, highly sensitive to assumptions about spending. That is why it is so important that we identify all the uncertainties when we discuss the envelope. Given the critical nature of the decisions we have to take, I think we should be cautious about committing ourselves to a final decision in July. I am however content that this should be our aim.

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

*John Major*  
*Secretary of State*

LOCAL GOVT: Relations PT36







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

*ecu*

*63/3 NPS*

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

March 1989

*Dr. P.*

*NBRm*

*PLC6*

LOCAL GOVERNMENT FINANCE

*-hap*

*3/3*

I have seen your letter of 3 February to John Major setting out proposals for this year's consultations with local authority associations, and of 7 February on the treatment of local authority expenditure in the 1989 Survey. I understand that you have now put your consultation proposals to the associations.

I welcome your recognition that 1990-91, the first year of the Survey is different, both in the way current expenditure is to be handled in this year's Survey, and the related consultation arrangements with local authority interest.

I am content both with the consultation procedures you have outlined for 1990-91, and with the remit you propose. I note also that you see the overview of changing services needs formed in the light of consultations with the local authority associations being brought together for the Consultative Council on Local Government Finance.

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

*[Handwritten signature]*

KENNETH CLARKE

LOCAL GOVT : Relations pr 36



SWYDDFA GYMREIG

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

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

*Oddi wrth Ysgrifennydd Gwladol Cymru*



*NBPM*

*ALCB*

*W/A*

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

*22* February 1989

*Ridley*

TREATMENT OF LOCAL AUTHORITY CURRENT EXPENDITURE IN THE 1989 SURVEY

*- will answer if requested*

You copied to me your letter of 31 January to Nicholas Ridley.

I am broadly content with the approach you suggest, insofar as it relates to arrangements for Wales, and am particularly grateful for your recognition that a July announcement is needed for 1990/91. I can see that may not be the case for subsequent years and I agree we should reconsider this and other aspects after the first year's experience.

I do wonder however how final a community charge for spending at need we shall be able to give by July since, for example, changes between July and the Settlement in population estimates (especially for Wales where I have decided to use registered population as the basis of my calculations) and capital loan charges could result in a significant revision to our July calculations.

/Nor am I...

Rt Hon John Major MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON SW1



Nor am I convinced that we should commit ourselves now to an announcement which fixes Aggregate External Finance (AEF) but allows for subsequent changes in the components which might affect the level of Revenue Support Grant (RSG). As Nicholas Ridley has pointed out we do ultimately have to defend the amount of Revenue Support Grant and specific grant levels separately. If we are to proceed on this basis then, like him, I would wish to be consulted on any subsequent proposals by colleagues which affected the AEF/RSG/specific grant balance, especially where it related to the balance between expenditure for which I am responsible and that which falls to colleagues but is included in my Settlement.

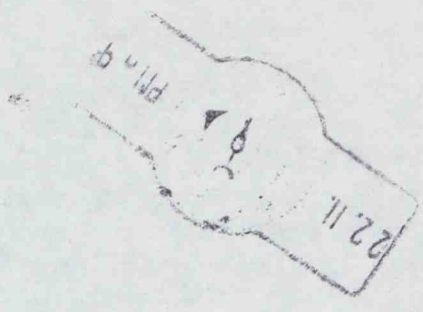
Against that background it might be prudent to leave until E(LA) a decision on precisely what the July announcement should cover and how irrevocable its figures should be. By the time E(LA) meets we should be better placed to assess the degree of volatility likely to arise from, for example, the commutation of specific grants, bids for new grants, movements in inflation and the effects of the new capital finance system.

I agree with those colleagues who have suggested that E(LA) should look at service by service spending needs before we move on to consider overall affordability; in looking at community charge consequences we also need to think about the implied year on year changes as well as absolute levels.

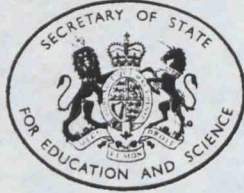
A copy of this letter goes to the Prime Minister, Cecil Parkinson, members of E(LA) and Sir Robin Butler.

*[Handwritten signature]*  
Cll

LOCAL GOVT : Kelantan pr 86



010  
RESTRICTED



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

1  
NDRM

REC 6  
14/2

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

14 February 1989

TREATMENT OF LOCAL AUTHORITY CURRENT EXPENDITURE IN THE 1989 SURVEY

WILL REQUEST IF REQUIRED

Thank you for sending me a copy of your letter of 31 January to Nicholas Ridley about arrangements for the handling of local authority current expenditure in the 1989 Public Expenditure Survey.

I am generally content with the arrangements proposed in your letter. In principle, I can see the case for an early announcement covering the Government's decision on the funding envelope for 1990-91, the aggregate need to spend, and the level of community charge for spending at need. I also recognise that it makes sense to include specific grants in the announced envelope because these affect the level of community charge. It is clear however from what you say at the top of your page 2 that there are fundamental difficulties over making the announcement as early as July: we shall not in July be able to predict accurately either NNDR or the level of specific grants, both of which form important elements in the decisions the Government has to take. I doubt whether in practice an announcement about aggregate finance and needs in July as compared with October significantly improves the effectiveness of local authorities in their financial planning. I recognise nevertheless the presentational advantage of maintaining a July announcement in the first year of the new financing regime. If we are to accept a July announcement on this basis, I think it should be subject to two important points.

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First, I think we need to recognise that because of the crucial importance of the July decisions for the level of community charges and the community charge for spending at need - which will be of critical political importance for the Government - we must take account of the uncertainties when making our July decisions. That means, in particular, that we should not simply adopt the lowest plausible figures just because they may be helpful for other reasons. It means also that we should leave ourselves some flexibility to review the envelope if necessary later in the year. I do not see why we have to tie our hands absolutely in July. Secondly, we should prepare for the following year on the basis of an announcement in October. If we settle in this years Survey realistic figures for forward years, we shall be able to argue that these provide a basis for planning and that an October announcement should suffice.

I am pleased that you welcome the idea that our E(LA) discussions on total needs assessments should take fully into account service Ministers' views about changing service needs. This is particularly important under the new system and at a time when I am seeking to implement major education reforms. The Government will do itself no good if at the end of the day it can be shown to have artificially held down the community charge for spending at need by setting service needs assessments at a level which is not credible. This is one of the considerations which must be at the forefront of our minds when we take our July decisions. I agree very much with what Paul Channon has said about this. Before we look at proposals for total needs in the light of consultation with local authorities, we need to consider each services spending requirements separately. I believe that credibility will require us to have particular regard to what local authorities are spending in 1989-90 on individual services.

I can go along with what you are suggesting for specific grants. I have already raised in connection with capital grants the point that my Education Support Grant programme needs to be settled around Easter and my other main specific grant programme for in-service training grants for teachers also needs to be settled at about that time. This is to give time to local authorities to put together considered bids for assessment here in the autumn. I shall therefore need to approach you about the level of these grants ahead of the rest of our decisions. I ought also to mention that I have a new specific grant for the additional cost of travellers' children starting from 1 April 1990. This will offset the discontinuation of the grants for Inner London boroughs from that date. My officials will be in touch with yours about this.

I am sending copies of this letter to the Prime Minister, Cecil Parkinson and other E(LA) colleagues and to Sir Robin Butler.

*The July announcement will bear critically upon the level of Community Charges in the first year - we should not box ourselves into a decision which for political reasons we may want to reconsider later.*

*Timon van Kempen*

100





ce P.U.

RESTRICTED



SCOTTISH OFFICE  
WHITEHALL LONDON SW1A 2AU

NBM

ALG  
9/2

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

9 February 1989

Dear John,

TREATMENT OF LOCAL AUTHORITY CURRENT EXPENDITURE IN THE  
1989 SURVEY

*will report of 9/2*

Thank you for copying to me your letter of 31 January.

I am glad you are able to agree that the grant announcement for 1990-91 should be made in July. I recognise that you and colleagues will want to discuss further the arrangement for future years. But it is particularly important that in the run up to the new arrangements, and when in particular there are no baseline figures available, authorities should know where they stand in July.

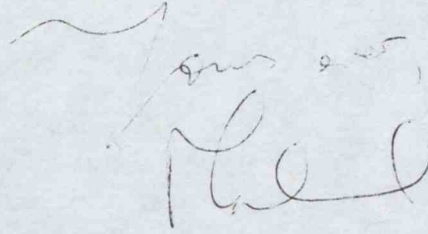
As to the detail of what should be announced in July, I have to take account of 2 significant differences as between Scottish and English circumstances. First, because my community charge legislation was enacted before the idea of the New Planning Total was developed, I still have the statutory concept of Aggregate Exchequer Grant. Second, I do not of course have in Scotland the NNDR. A July announcement on my part will therefore have to include the total of revenue support grant for 1990-91, and also those specific grants that have traditionally been within AEG. I would propose to announce a single figure only, at that stage. Scottish authorities will not expect to hear anything about non-domestic rates until the September RPI figure is available, ie in mid-October 1989. In the meantime, for their budgeting purposes, they can of course make reasonable assumptions on the basis of their projected non-domestic rating income in 1989-90, and their own perceptions of how the RPI is likely to move.

I am content with what you propose on Survey baselines and, so far as it concerns me, with your proposed timetable. On a point of detail and for clarification, what I will be announcing in October 1989 will be the maximum permitted non-domestic rate increase for 1990-91, and my detailed proposals for distributing RSG among authorities.

RESTRICTED

**RESTRICTED**

I am copying this letter to the Prime Minister, Nick Ridley, Cecil Parkinson and other members of E(LA) and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to read 'Malcolm Rifkind', written in a cursive style.

**MALCOLM RIFKIND**

**RESTRICTED**

09. II. ANO 1



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for ~~HEALTH~~ Health

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

NBM  
 RAC  
 9/2  
 8 February 1989

Dear John,

TREATMENT OF LOCAL AUTHORITY CURRENT EXPENDITURE IN THE 1989 SURVEY

I have seen your letter of 31 January to Nicholas Ridley seeking agreement to your proposals on the handling of local authority current expenditure in the 1989 Survey.

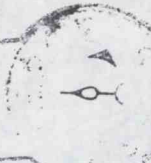
As you say, the 1989 Survey breaks new ground. And whilst there are many similarities with the existing arrangements, the new system involves fundamental changes of some consequence. It is therefore extremely important in my view that we should - as indeed you suggest - review the arrangements for next year in the light of our experience this time round. Many of the factors identified as requiring a July announcement, for example, will have less relevance in future and we should not, I feel, tie ourselves to what may be expedient this year.

On that basis I agree to your proposed timing and coverage of the 1990-91 grant announcement, and to the inclusion this year of a total for specific grants in the funding "envelope" on the basis you outline. I am content also with your proposals for constructing the baseline for the Survey, and with the timetable outlined in Annex B to your letter. In due course I will be submitting proposals for the extension of all three PSS specific grants (the training support grants for the elderly and child care and the AIDS grant).

I agree also that E(LA) would be the right forum for joint consideration of the important issues involved. Our decisions will be measured against the needs assessment which we finally settle on.

I am copying this letter to the Prime Minister, Cecil Parkinson and other E(LA) colleagues, and to Sir Robin Butler.

KENNETH CLARKE

09. II.  PH. 9

