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Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon Christopher Patten MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

20 September 1989

Dear Secretary of State

LOCAL AUTHORITY CAPITAL: LOCAL COUNCILS WITH NO OUTSTANDING DEBT

Nick Ridley wrote to John Major on 12 July, setting out proposals for the treatment of local authority capital receipts under the new capital finance regime, for local authorities which have paid off all their debt. Since then, our officials have discussed how legislation could be drafted to achieve the objectives set out in Nick's letter. *will request it read*

I accept that once an authority has eliminated all its outstanding debt there is no realistic alternative but to allow the council to use certain amounts of the receipts set aside for debt redemption for other specified purposes. Our officials have agreed that this power will have to enable purposes, amount and period of use to be specified by you as Secretary of State. There will need to be further discussion between our Departments about how these controls will be applied. But I am content that you should take a power on that basis.

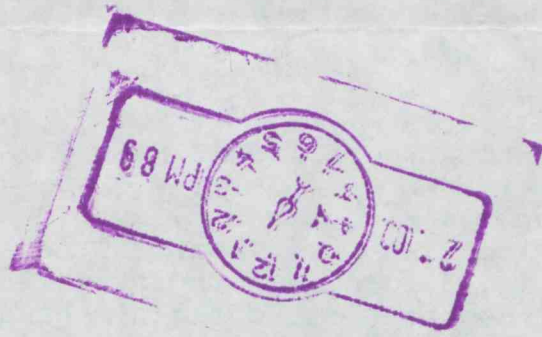
I understand that you are considering taking a regulation-making power rather than a direction-making power. I wonder whether you might consider the advantages of taking a direction-making power as well. If you take only a regulation-making power, then the rules will have to apply to the whole class of authority. With a direction-making power the rates and purpose of spending could be set to reflect the individual authority's circumstances.

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

*Your sincerely
Cairns*

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

LOCAL GOVT PT 37 June 89





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CCAJ
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01-276 3000
My ref:
Your ref:

The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

18 October 1989

John Norman

LOCAL AUTHORITY CAPITAL: LOCAL AUTHORITIES WITH NO OUTSTANDING DEBT

Thank you for your letter of 20 ^{file with PG} September agreeing to the enabling power Nick Ridley had proposed for the Local Government and Housing Bill.

On balance I favour a regulation making power. It gives us flexibility to distinguish between descriptions of authority, not just classes of authority. So for example we could prescribe different treatment for authorities which had sold all their housing stock. The disadvantage of a direction making power is that it would expose us to special pleading from every authority which became debt free.

Our officials are discussing how the power should be applied and what we might say on this early next week at Lords Report. Given the uncertainty about the future number of debt free authorities, we will want to maintain as much flexibility as possible.

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

Chris Patten

CHRIS PATTEN

Local Govt - Relations Pr 57,

