



Treasury Chambers, Parliament Street, SW1P 3AG

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

*Can't have
 advice on
 which this
 broad pt.*

17 June 1988

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Dear Secretary of State,

LOCAL AUTHORITY CAPITAL CONTROL REGIME

Thank you for copying to me your minute of 9 June to the Prime Minister covering a revised draft of the consultation paper on the control of local authority capital expenditure. I have also seen a copy of the letter of 13 June from the Prime Minister's Private Secretary to yours.

I appreciate that the consultation paper needs to be issued as soon as possible and I remain content with the broad capital control regime proposed. I also agree that the new scheme should apply to housing and I am content that the proportion of housing receipts which local authorities will be allowed to spend on capital projects should be set at 25% in the consultation document.

I share however the Prime Minister's concern about the drafting of paragraphs 22 and 30 in the consultation document which describe the proposals to transfer spending power from one local authority to another. We have of course not discussed this further at Ministerial level since the E(LF) meeting in April. But my own view is that any such scheme should be confined to transferring capital receipts and only those local authorities with surplus receipts should be eligible. For other authorities still in debt, the first call on any capital receipts should be the extinction of outstanding debt. I do not see a case for any easing of the requirement to repay debt from the proceeds of assets built with public money, until all such outstanding debt is relinquished.

However I would be prepared to go along with a more limited scheme which applied to those local authorities with surplus receipts, providing there are no implications

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for total local authority capital expenditure. I think the draft in paragraph 30 would therefore need to make clear that the incentive on local authorities to participate in such schemes would involve some element of local but not national additionality. Any such scheme could not be allowed to add to aggregate capital spending by local authorities and would therefore need to be taken into account in determining credit approvals at the national level.

Finally I am particularly concerned at your proposal for the scheme to allow surplus receipts to be transferred to health authorities for capital projects. The additional capital spend would inevitably generate current expenditure requirements which might not be sustainable from the income available to health authorities. To avoid such problems arising I consider that any transfers from local authorities would have to be offset by a reduction in the voted allocation for capital expenditure. However, this in turn could lead to a distortion of priorities in the NHS capital programme. Overall therefore I think it would be better if health authorities were not included in such a scheme.

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

Yours sincerely,

John Major

PP JOHN MAJOR

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