



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:

The Rt Hon Douglas Hurd CBE MP
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

CH/EXCHEQUER	
REC.	08 AUG 1988
ACTION	CST
COPIES TO	

5 August 1988
✓ 8/8

Dear Douglas

Thank you for your letter of 13 July agreeing to my proposals to capitalise specific grants given to local authorities.

You raised the issue of service grants administered by your Department which, because they cover both capital and current expenditure, would not fall within the framework I suggested. You may be reassured that I shall be seeking a wide power in the forthcoming Housing and Local Government Bill which will not be specifically geared to particular grants. I am therefore content to accept your proposal that Parliamentary Counsel be asked to draft the necessary clauses, so as not to preclude service grants, if in the future you decide to switch to a lump sum basis.

I shall write to you again if I anticipate any problems in meeting your requirements.

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

Nicholas Ridley

NICHOLAS RIDLEY



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon Kenneth Baker MP
Secretary of State
Department of Education and Science
Elizabeth House
York Road
LONDON
SE1 7PH

Handwritten signature

H/EXCHEQUER	
REC.	08 AUG 1988
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5 August 1988

✓ 8/8

Dear Kenneth

Thank you for your letter of 13 July confirming your agreement to the principle of proceeding with the capitalisation of specific grants to local authorities.

You particularly raised the question of the effect of my proposals on the level of credit approvals available for spending on education. I can certainly reassure you that the capitalisation of entitlements to loan charge grants from spending before 1 April 1990 will have no effect on the level of credit approvals. The capitalised payments will count against credit approvals but local authorities will be free to use them in place of the borrowing they would otherwise have been able to undertake.

The situation post 1 April 1990 will however be different and payments of grants on spending from that date as capital sums will be offset by a reduction in credit approvals. But such grants will convey additional spending power, unlike grants in the present system. Local authorities' ability to incur capital expenditure will thus not be affected. However I should add that the method of distributing the total for credit approvals between Departments is still being discussed by officials and I can confirm that they will take note of the concerns you have expressed.

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

Handwritten signature
Nicholas Ridley

NICHOLAS RIDLEY