ce PO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref: nbpm

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

Dear John,

27 FEB 1989

Attached

CIVIL AVIATION AUTHORITY: BORROWING LIMIT

QL(89) 15

QL Committee on 8 February agreed a provisional slot in next Session's legislative programme for a short Bill to increase the CAA's borrowing limit, and to provide for subsequent increases. I am writing to seek your formal policy agreement to my specific proposals for the legislation.

Section 10(6) of the Civil Aviation Act 1982 fixed the CAA's borrowing limit at £200m. At the end of 1988/89 the Authority's total borrowing, including foreign loans, is expected to stand at £136m (it was £139m in December). The CAA's Developmental Plan 1988/92, prepared last September, indicated that the Authority expect their net borrowing to increase by up to £60m in each of the next 3 financial years; on that basis the CAA would reach the present ceiling very early in 1990-91. The planning totals agreed in the last IFR round assumed lower annual increases, in the range £40m-£50m, but even on that basis the £200m ceiling will be reached during the 1990-91 financial year. There is therefore a clear need for an early and substantial increase in the ceiling set by the 1982 Act.

As you know, the CAA plans a substantial programme of investment to provide the air traffic control capacity needed to cater for the forecast growth in traffic. Foremost in this programme are the Central Control Function (recently approved) and the en-route project, formerly known as LATCC II, where we expect to receive CAA's investment submission soon. It seems to me that the new borrowing ceiling should be set sufficiently high to cover CAA's possible borrowing needs well into the next decade. I therefore hope you will agree to a £300m increase to £500m.

For the longer term I think that a less cumbersome and time-consuming method than primary legislation would be appropriate for any further increases that may be needed beyond the £500m. I therefore propose to include in the Bill a provision enabling the Secretary of State to change the ceiling (up or down) by Order subject to affirmative resolution in the Commons. That would parallel the existing provision in Section 22(1) of the London Regional Transport Act 1984, which governs changes in LRT's borrowing ceiling. I should be grateful to know whether you are content to proceed on this basis.

I am copying this letter to E(NI) colleagues, and to Sir Robin Butler.

Yours,

Paul

PAUL CHANNON