CCBG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

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

22 March 1988

NBLM

Dear John

BRCG
mb

DOE/LA1 END YEAR FLEXIBILITY

Thank you for your letter of 23 February. I have also seen Paul Channon's letter of 3 March.

Subject to the views of other colleagues, I am content with the package you suggest. I must say, however, that whilst I agree we should ensure we have discretion on whether to apply EYF in future, I agree with the point Paul Channon makes about the use of that discretion. For the last year of the present control system we would need a pretty good reason to justify overriding a scheme which has long since been agreed and promulgated to local authorities.

Our officials can liaise on the details and timing of an announcement.

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

Yours ever
Nicholas

NICHOLAS RIDLEY

100% RECYCLED PAPER

LOCAL GOV Relations PT3d.

CONFIDENTIAL

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

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

MBPM

RRG
4/3

Dear John.

3 MAR 1988

DOE/LA1 END YEAR FLEXIBILITY

AT FLAP (23 FEB)

Thank you for copying to me your letter of 25 February to Nicholas Ridley. Overall I am prepared to accept the package you propose, though it will clearly not be acceptable to use the discretion you propose in a way which will effectively ignore underspending on the net cash limit because right-to-buy or other genuine capital receipts are higher than forecast. This would amount to altering the net basis of control in mid-year: and it would not stand up to scrutiny against our explicit objective of controlling the PSBR impact of local authority programmes.

I am also concerned that changes to the timing of additional EYF allocations should not postpone them beyond the point at which a reasonably confident prediction of the scale of the underspend can be made. This year, for example, this will clearly be possible by May.

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

Yours, Paul

PAUL CHANNON

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LOCAL GOVT: Relations PT34

010/4212

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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

25th **February 1988**

DOE/LA1 END YEAR FLEXIBILITY

Thank you for your letter of 13 January. I have also seen Kenneth Baker's letter of 18 January and Paul Channon's letter of 25 January.

I am grateful to you for meeting most of the concerns set out in my letter of 20 November. The one point on which we have not so far agreed is whether the end-year flexibility (EYF) allocations should be reduced to reflect the 1986-87 overspend of £18.5 million. Following discussions between our officials I have considered the matter further and suggest the following package.

(i) In accordance with the present EYF rules, you would announce that the 1988-89 cash limit would be increased by £141.7 million in due course, provided the fourth quarter returns for 1987-88 confirm an underspend of at least that size has arisen. But only £100 million of allocations would be issued now. The remainder would be issued in May, when the results of local authorities' capital expenditure and commitments returns are available, only if doing so did not lead to a forecast overspend against the increased 1988-89 cash limit.

(ii) The Local Authority Associations would be consulted about changing the timing of any EYF allocations made in respect of an underspend in 1988-89, so that we did not have to issue EYF allocations until we were more certain that an underspend would arise.

(iii) When preparing a revised circular to reflect the change in timing, your officials would ensure that Ministers would have discretion on whether to apply EYF if underspending occurred in 1988-89.

(iv) If there is an overspend in 1988-89 a cash limit penalty could be applied to 1989-90.

(v) The treatment of overspends and underspends in 1989-90 and later years would be considered when decisions on the new control system have been taken.

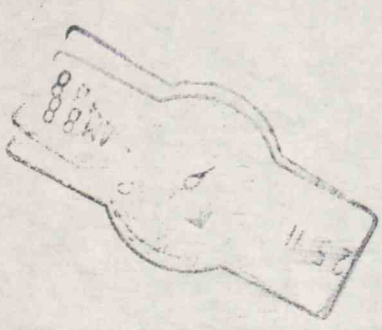
On the understanding that these proposals are acceptable to you, I believe the way is clear for you to announce the extra allocations for 1988-89.

Your letter of 13 January also suggested reducing the 1987-88 cash limit by £18.5 million. But this change would have no effect on local authority spending and it would be difficult to explain why we were doing this 11 months into the financial year. I see no point in pursuing what would be a purely cosmetic penalty.

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

JOHN MAJOR

LOCAL GOV'T: Relations
Pt 34



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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

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

NJBPM
ARLG

25 JAN 1988

Dear John,

DOE/LA1 END-YEAR FLEXIBILITY

file under PE

Thank you for copying to me your letter of 18 December to Nicholas Ridley. I have also seen his reply to you of 13 January, and Kenneth Baker's letter of 18 January.

Like Nicholas, I am disappointed that you are still pressing for the 1986/87 overspend to be offset against the carry-forwards which are allowed by the end-year flexibility rules. The underspend this year is expected to be much more than 5% - the maximum flexibility allowed under the EYF rules - over the amount of the 1986/87 overspend. I accept that there is a reasonable case for applying the EYF rules only against the net underspend over both years, and that this could mean lower or no EYF allocations for years in which the underspending was approximately balancing an earlier overspend. But that is not the position taking 1986/87 and 1987/88 together.

For local transport capital expenditure, it is clear that the revised methodology which we introduced after the 1986/87 overspend is itself a contributory cause of this year's underspend. To reduce EYF allocations would, therefore, impose a double penalty. The present shortfall is a real loss in terms of both transport costs and accident cost savings, since local authorities are postponing work on, for example, new small junction improvements and the replacement of dangerous safety fences.

As you imply, the underspend on housing is a different case, since expenditure is being achieved in gross terms. But the success of the "Right to Buy" policy rests on the enthusiasm with which councils have sought to apply it locally. The substantial rise in receipts over this year is considerably reducing the expected impact of the local authority capital

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programme on the PSBR, since the accepted net programme will not be achieved. Against this background, it is difficult to accept your view that the maximum EYF allocations will result in an unmerited gain in gross local authority capital expenditure.

If a lower total is made available we can expect strong protests across the whole of local government and it will, in my view, be impossible to defend the reduction as logical.

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

Yours,

PAUL CHANNON

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

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

18 January 1988

Dear John,

DOE/LAI END-YEAR FLEXIBILITY

Nicholas Ridley has sent me a copy of his letter of 13 January responding to yours of 18 December. I am sure that he is right that the 1986-87 cash limit penalty should be applied in 1987-88 rather than in 1988-89: if we did the latter we should be accused - with some justice - of visiting the sins of the fathers on the grandchildren as well as taking advantage of the generation in between.

Of course I recognise that the prospective underspend in 1987-88 is largely due to the level of capital receipts coming in to local authorities. But we have chosen to run the system on a net cash limit and should stick to our normal procedures. Anything else would be widely seen as unfair, and would scarcely be helpful in preparing the ground for trying to reach agreement on a new capital control system.

I am planning to use the additional resources mainly to provide for urgently-needed improvements in school buildings in inner cities. To have the maximum effect we need to settle this matter quickly, so as to allow local authorities sufficient time to plan the efficient use of the extra resources. I would therefore urge an early decision along the lines Nicholas Ridley suggests.

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

Yours ever,
Kenneth

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~~Econ Pol - PES.~~
LG: Relations
with PG

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cc BG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

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

NBPM

13 January 1988

Dear Chief Secretary

DOE/LA1 END YEAR FLEXIBILITY

file with PG

Thank you for your letter of 18 December.

I am disappointed that you still feel a cash limit penalty for the £18.5m 1986/87 overspend should be offset against the 5% limit on the end year flexibility (EYF) carry forward to 1988/89. This seems completely wrong to me.

The proper time to apply a cash limit penalty in respect of 1986/87 would have been in July when the Cash Limits White Paper was published. At that stage your officials agreed that the response to the overspend had been to seek a more realistic relationship between allocations and provision in 1987/88. Indeed the reduction in allocations which that response entailed is one of the reasons we face such a large underspend this year.

There are also technical reasons why it would be inappropriate to apply the 1986/87 overspend to 1988/89. The £18.5m overspend in 1986/87 is of course only a provisional figure. Indeed early indications from final outturn returns suggest it is likely to increase. It would be absurd to offset EYF by £18.5m now, only to find that the figure changed significantly after the extra allocations had been issued.

You quote the precedent of a cash limit penalty being imposed in 1985/86 in respect of an overspend in 1983/84. But the 1985 Public Expenditure White Paper justified that penalty by saying (Volume 2, Chapter 4, paragraph 21): "It was not considered practicable to offset this [1983/84] overspending by reduction in cash limits in 1984/85 in the normal way in the course of the year because serious overspending problems were already emerging in 1984/85." This year underspending rather than overspending has emerged and so the precedent suggests that any 1986/87 penalty should be offset against 1987/88 in the normal way.

Moreover, presentationally to apply 1986/87 overspend to 1987/88 underspend makes better sense. The figures are very uncertain, but the net underspend for 1986/87 and 1987/88 combined will still probably be several hundred million pounds higher than the maximum £141.7m EYF carry forward to 1988/89. The 5% limit is the potential call on the Reserve which we have agreed to accept in the event of an underspend in any year. It would be very

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difficult to justify a carry forward of less than that figure when the net underspend on DOE/LA1 over the two relevant years was several times higher than it.

For these reasons I still cannot accept your proposal to offset the 1986/87 overspend against the carry forward limit. I have met all the other concerns in your letter of 20 November and I hope you can now agree to the £141.7m allocations being issued. I would like to announce the allocations as soon as possible after the Public Expenditure White Paper, so that we can make a virtue of EYF rather than appear to be forced into it by legal pressure, and so that local authorities can plan the use of the extra allocations efficiently.

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

Yours sincerely

R Bright

pp NICHOLAS RIDLEY

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

LOCAL GOVT : Relations pt 34

040/4215

CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

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

18 December 1987

Dear Secretary of State,

DOE/LA1 END-YEAR FLEXIBILITY

Thank you for your letter of 8 December. I have also seen Paul Channon's letter of 11 December.

In view of the earlier legal advice, I have reluctantly accepted that end-year flexibility must apply to the 1987-88 underspend even though it is entirely due to higher than expected receipts (including RTB receipts generated by individuals, not local authorities). The result of the extra EYF allocations will be a large, and in my view unmerited, increase in gross LA capital spending next year.

I was therefore most grateful for your agreement that the extra allocations should be announced before publication of the Public Expenditure White Paper: that is most important in presentational terms. We are also agreed that provision and allocations should be made on a 1:1 basis. Moreover, subject to the views of other colleagues, I am prepared to accept your revised proposals for distributing the extra allocations on the understanding that no further allocations will be available in 1988-89 to deal with the aftermath of the recent storms.

But I was disappointed that you and Paul Channon were unable to respond to my proposal that the cash limit penalty for the overspend in 1986-87 should be offset against the 1988-89 cash limit. I believe that overspending should lead to a cash limit penalty and I note that you are indeed prepared for such a penalty to be imposed. But your suggestion that we impose that penalty this year does not seem the right approach: it is much too late in the year to announce such a reduction, not least when we have already announced a £75 million inrease in allocations, and it could have no significant

effect on spending. In short, it would be meaningless.

Far from bending the rules, it seems to me wholly consistent with them to impose the cash limit penalty for 1986-87 in 1988-89. On the only previous occasion when such a penalty was imposed in respect of the overspend in 1983-84, it came into effect two years later, in 1985-86. That is clearly again the best approach in the present circumstances, where, because of the legal advice on EYF, I am obliged to concede a very substantial and unwelcome claim on the Reserve before the year has even begun.

Accordingly I must press for the cash limit penalty to be netted off the EYF increase. This will allow departments to issue additional £123.2 million allocations before the next financial year begins and give time for local authorities to adjust their capital plans accordingly.

More generally, the experience of EYF this year has served to demonstrate the inadequacy of the EYF arrangements as they apply to local authority capital expenditure. I cannot allow the present system, which is seriously out of step with the rules applied on cental government programmes, to continue unchanged next year. I have therefore asked my officials to write to yours immediately setting out the options for improvements with a view to reaching an agreed view on what changes should be made.

I am copying this letter to Willie Whitelaw, other members of E(LF), David Waddington and Sir Robert Armstrong.

Yours sincerely,

Jim Ruth

pp JOHN MAJOR

(Approved by the Chief Secretary + Signed in his absence).

LOCAL GOVT: Relations Pt 3a.

CCBG

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

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

FILE.

8 December 1987

Dear John

DOE/LA1 END YEAR FLEXIBILITY

FILE WITH ON.

Thank you for your letter of ~~20~~ November and for your agreement that end year flexibility (EYF) should apply to the DOE/LA1 cash limit as a result of the substantial underspend in the current year.

In view of the legal advice, it is not strictly necessary for me to respond to your comments about the source of the prospective underspend in the current year. Nevertheless, I would like to record that I see no reason to distinguish an underspend arising from reduced gross spending from an underspend arising from enhanced receipts. DOE/LA1 has always been a net cash limit and it is inherent in the present capital control system that increased receipts are likely to be accompanied by some increase in gross expenditure. This is of course the only carrot that we have to encourage the authorities to turn over their assets and not to hold back unreasonably on sales of all sorts of assets.

I am prepared to meet all but one of your various concerns.

On timing, now that we have missed the Autumn Statement, I am prepared to delay the announcement of allocations until publication of the White Paper and the second quarter figures in January. I would want to issue allocations as soon as possible thereafter to facilitate sensible budget planning by authorities. In the meantime, it is important that I should be able to say publicly that special storm damage allocations (to which I refer further below) will be a first call on EYF to allay the concern that is building up about this. I hope you can agree to this.

On the amount of extra allocations, I reluctantly accept that there should be a 1:1 ratio between allocations and provision, subject to the allocations being issued in January. Any significant delay beyond then would reduce the probability that the allocations would be used in full for additional spending and a higher ratio would thus be justified.

In view of Kenneth Baker's and Paul Channon's comments, I accept that we should in this exercise continue to allocate to service blocks in proportion to net provision. And I am prepared to agree that any special storm damage in 1988/89 should be met from EYF. But you will know from our previous discussion of storm damage

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LOCAL GOVT: Relations PT3a.

that the local authorities are reluctant to capitalise. That being so, it looks as if capital expenditure in 1988/89 attributable to the storm will be substantially less than we had been expecting and will probably be mainly incurred on projects where major renewal, replacement, or extension of the previous facilities is envisaged. I would therefore prefer that we distribute the full EYF allocations to service blocks and let each block make its own arrangements for storm damage. This would enable allocations to be issued more quickly, because there would be no need to wait for a central assessment of storm damage. It would also allow each service to consider the merits of storm damage claims alongside the general need for renovation and repair.

I cannot, however, accept your proposal to deduct the 1986/87 £18.5m overspend from the 5% carry forward from 1987/88 to 1988/89. Indeed, I am somewhat surprised that you are suggesting a cash limit penalty at all. You refer to paragraph 61 of DOE Circular 5/87. At the time of the Cash Limits White Paper, your officials agreed that Treasury's response to the 1986/87 overspend had been to seek a more realistic relationship between allocations and provision in 1987/88. This accorded with the treatment which paragraph 61 sets out as an alternative to a cash limit penalty, since the overspend had been "taken into account in setting provision more generally".

If you now feel that a formal cash limit penalty is required for the 1986/87 overspend, I am prepared to apply one to the 1987/88 cash limit, which would be the normal procedure set out in paragraph 61. But to knock £18.5m off the 1988/89 carry forward when, because of the 5% EYF limit we are ignoring £500m of the 1987/88 underspend would appear to be disingenuously bending our own rules. We will be under fire in any case for top slicing storm damage from EYF, since there is strong local feeling that extra allocations for this should in any event be provided.

I very much hope you can meet my concern on this point. If so, we can announce and implement EYF when the Public Expenditure White Paper is published and indicate our agreement in principle if questioned beforehand.

I am copying this letter to Willie Whitelaw, other members of E(LF), the Chief Whip and Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY