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My ref:

Your ref:

The Rt Hon Cecil Parkinson MP
Department of Transport
2 Marsham Street
LONDON
SW1

NBRM

2 February 1990

PLCC

W/A

In Care,

TREATMENT OF CAPITAL DEBT IN THE NEW REVENUE SUPPORT GRANT

Thank you for your letter of 18 January in which you set out your concern about the treatment of capital financing in Standard Spending Assessments (SSAs). *WILL REQUEST IF REQUIRED*

You are particularly concerned that the assessed capital financing costs within SSAs for 1990/91 do not take account of the actual capital allocations received by individual authorities for 1989/90. Although I am sympathetic to your concerns and the impact of this treatment on one or two transport authorities, there is little I can do at this stage. And I cannot promise to make any changes for 1991/92 without full consultation with colleagues and with local authority representatives.

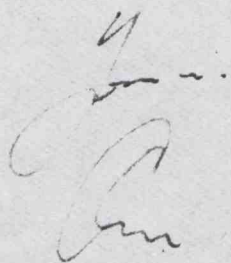
The initial decision to base the capital financing element of SSAs on an assumed outstanding debt figure rather than each authority's actual debt was made following correspondence with members of E(LG) in September 1989. At that stage you questioned the proposed treatment of capital receipts and our officials agreed on an approach which was more acceptable to you. The treatment of debt agreed in September was carried through into the final settlement for 1990/91, which was approved by the House on 18 January.

For 1990/91, the assumed debt figure is calculated from GRE elements for 1989/90 relating to capital expenditure. These GREs included an allowance for 1988/89 capital allocations but not for 1989/90. Previously it had been usual to incorporate capital allocations for the settlement year retrospectively, at the time of a Rate Support Grant Supplementary Report for the year in question. However, for 1989/90 there was originally no intention to have a Supplementary Report as this was the final year of the old system. But there is now to be such a Report to take account of an error discovered in the figure for Croydon's road lengths. In order to minimise the disruption caused to local authority finances we intend to limit the

number of data changes made in this supplementary Report, although the possibility of incorporating capital allocations for 1989/90 at that stage will, of course, be fully considered.

In the absence of such an adjustment to GREs for 1989/90, I have no alternative but to base this SSA element on the GRE elements for 1989/90 as they stand at the present time.

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



CHRIS PATTEN

