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My ref:

Your ref:

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NBPm

RAC6

6/3

Dear Tom

#### TREATMENT OF CAPITAL DEBT IN THE NEW REVENUE SUPPORT GRANT

*at hand*  
Thank you for your letter of 23 February which in turn referred to Mr Patten's reply to Mr Parkinson of 20 February.

To clarify the position, the calculation of the capital financing SSA element for 1990/91 starts from a notional outstanding debt figure for each authority at March 1990. This notional debt is calculated using GRES for 1989/90; these are the latest available figures. The capital financing components of these GRES incorporated capital allocations up to and including 1988/89. Capital allocations for individual authorities for 1989/90 were not available at the time of the 1989/90 settlement and so allocations for 1988/89 (scaled to the national totals for 1989/90 for each service) were used. This latter point means that local government as a whole cannot benefit from the inclusion of the latest information on capital allocations. It can only lead to a reallocation of GRE, with consequent gainers and losers.

As you suggest it would be possible to exemplify the effects of including our latest estimate of capital allocations for 1989/90 within the Supplementary Rate Support Grant Report for 1989/90. I have to say, though, that Ministers had always hoped to avoid the resulting retrospective changes in grant in 1989/90, the last year of the old system. For illustrative purposes the resulting redistribution between authorities of the capital financing component could then be incorporated into SSAs for 1990/91 to give us an indication of the scale of the effect. We could not, of course, change actual SSAs for 1990/91, but only incorporate the change into SSAs for 1991/92. The exercise could be completed in time for Ministers to make decisions about the forthcoming Supplementary Report.

However, the possibility of incorporating later information on capital should not be seen in isolation. There are many other similar data changes which we could be pressed to make by the local authority associations. Making changes in one area would make it much more difficult to resist changes in others. This could result in large scale disruption to local authority finances in respect of a grant year which had effectively been closed down as well as casting some doubt on the SSAs for 1990/91. Ministers will of course have to consider where the balance of advantage lies at the time decisions are made.

I am copying this letter to the Private Secretaries to Members of E(LG), and to Sonia Phippard in Sir Robin Butler's office.

R BRIGHT  
Private Secretary

