

CONFIDENTIAL FILING

Correspondence with Councillor
Paul Benesford

LOCAL GOVERNMENT

February 1989

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
13.6.89							
<p>PREM 19/2767</p>							

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SLHBIQ

bc P.U.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

31 July 1989

CORRESPONDENCE WITH COUNCILLOR BERESFORD

Thank you for your letter of 21 July on the capital finance issues raised by Councillor Beresford, following up the earlier letter of 13 June on the Community Charge aspects. (The latter aspects were taken into account in the recent E(LF) discussions.)

The Prime Minister assumes that Mr. Patten and Mr. Hunt will want to consider the points arising on the capital finance issues. But she welcomes the two further options identified in your letter, particularly the possibility of excluding from the debt redemption rules expenditure carried out on improving properties before they are sold, and supports the idea that there should be urgent further work and discussions with Councillor Beresford. Assuming that these latest options can be satisfactorily developed she would be content to drop the earlier possibilities of changing the debt redemption ratio for housing receipts to 60 per cent/40 per cent in inner city areas, and taking into account local authorities' track record on asset disposals in distributing credit approvals.

I am copying this letter to Carys Evans (Chief Secretary's Office) and Trevor Beattie (Minister of State's Office, Department of the Environment).

PAUL GRAY

Alan Ring, Esq.,
Department of the Environment

PRIME MINISTER

WANDSWORTH

Back in May, following correspondence and exchanges you had had with Councillor Paul Beresford of Wandsworth, you asked the Department of the Environment to consider two possible changes to the local authority capital regime:

- changing the debt redemption ratio for housing receipts to 60/40 in Inner City areas as compared with the present single national rate of 75/25;
- taking into account local authorities' track record on asset disposals in the distribution to them of credit approvals.

After repeated prodding DoE have now come forward with a response in the form of a letter at Flag A, which was authorised by Nick Ridley before his departure. This letter argues that, on balance, neither of these two adjustments to the capital regime would be desirable. But Nick Ridley acknowledged the strength of Councillor Beresford's concerns and suggested two further options that might be considered:

- i) setting normative receipts targets for local authorities, with extra credit approvals being given to those - like Wandsworth - who exceeded the target;
- ii) excluding from the debt redemption rules expenditure carried out on improving properties before they are sold. This would go to the heart of the point to which Beresford has objected.

Nick Ridley has already taken action to amend the Local Government and Housing Bill so that, if either of these changes was judged desirable, they could be implemented. He proposed that discussions with Beresford should now be opened to discuss the new options.

Tony Newton (in his former capacity) supported the idea of pursuing these new options, particularly the second.

John Major (again in his old capacity) was more cautious, given the potential expenditure implications, but again was content for the ideas to be explored.

John Mills' note (Flag B) provides Policy Unit advice:

- he welcomes the proposed new options, in particular the second;
- he urges that the second option be worked up urgently and discussed with Beresford;
- on the assumption that this new option proves viable, he recommends that the two earlier ideas need not be pursued further;
- in passing, John also mentions an earlier letter about the Community Charge in Wandsworth, which I did not trouble you with; your concerns on this point were overtaken, and taken account of, in the work leading up to the safety net announcement.

Responsibility for all this has now of course passed to Chris Patten and, as regards the Inner City aspects, to David Hunt. Content for me to minute back saying that you assume they will now be considering these issues, but that:

i) you welcome the two new options identified, particularly the second one, and agree that there should be urgent further work and discussions with Beresford? *Yes*

ii) you are now content to let the earlier two possibilities lapse?

REC.

Yes

P. GRAY

28 JULY 1989

PAUL GRAY

25 July 1989

WANDSWORTH

Persistence has paid off and DOE have now come up with two new options. These should go some way to meeting Paul Beresford's concerns. But the precise impact is unknown until they are discussed with him.

The New Options

(i) Setting 'normative' receipts targets for authorities, with benefit, in the form of extra credit approvals, for authorities like Wandsworth which exceed the target.

The effect of this will be to create an incentive to sell assets. A power to do this will be put in the Local Government and Housing Bill, although DOE says it could not be implemented until 1991/2. But it could be a useful weapon to have in reserve.

(ii) Excluding from the debt redemption rules expenditure on improving property before sale.

This is the most promising option. It addresses Beresford's main concern that the new capital controls will simply penalise authorities for spending money on refurbishing property to make it saleable. Instead it should create an incentive to undertake such improvements and this in turn should boost sales.

There are two caveats:

(i) DOE are not as yet able to assess what benefit this will give Wandsworth. Reducing the ratio to 60:40 would increase its spending power from receipts next year from £40m to £60m. Beresford will be looking for similar orders of magnitude from this new option.

(ii) The period of time over which refurbishment costs can be "scored" needs to be settled. This will make a big difference to the final result. It clearly should be at least 2 or 3 years given the length of time it takes to refurbish whole blocks of flats. There is a danger if it is set too short - say only one year - of spoiling the ship for a ha'porth of tar.

The former options

These were (a) a lower debt redemption ratio for inner city authorities, and (b) rewards for asset disposals. DOE comes down quite firmly against them, ^{with} Treasury support. I am not convinced the case is proven against the lower ratio, but I do not think it needs to be pushed any further now provided the new options are shown to provide a reasonable solution. The ratio can in any case be changed by regulations at a later date if necessary.

Community Charge in Wandsworth

This was also raised in your letter of 15 May to DOE and they responded on 13 June.

Wandsworth has been able to subsidise rates from its housing revenue surplus (the reverse is true in most of the rest of inner London) and Beresford was concerned about the

adverse impact on Wandsworth's community charge of ring-fencing the housing revenue account.

Beresford's concerns are not now borne out. Taking the overall position as agreed by E(LF), next year's Wandsworth community charge will probably be the lowest in London. The ILEA specific grant helps a lot to achieve this, but it remains a tribute to what has been achieved in Wandsworth and it will be an immensely valuable card in the 1990 local election.

The 13 June letter therefore simply needs to be noted.

Conclusion

The acid test is success in avoiding the difficulties in the new capital control regime identified by Beresford. This was the thrust of the Prime Minister's concern set out in your letter of 15 May. Removing refurbishment expenditure from the debt redemption rules looks like a promising way out but we need to be sure that it will actually solve the problem. The DOE therefore now needs to talk about it with Beresford, and final judgement should await this.

Recommendation

- Welcome the two new options
- Agree that the second of these (exempting refurbishment costs from the debt redemption rules) be worked up urgently, and an assessment made of the help it will actually give Wandsworth (Beresford will need to be consulted)

- On the basis that it will provide the necessary help, agree that the earlier ideas of a lower ratio and rewards for asset disposals should not now be pursued further.

John Mills

JOHN MILLS



A . *cepa*
2 MARSHAM STREET
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01-276 3000

My ref:

Your ref:

Paul Gray Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

21 July 1989

Dear Paul,

File with PG.

CORRESPONDENCE WITH COUNCILLOR BERESFORD

Following my letter of 13 June, I enclose the two notes the Prime Minister asked for in respect of the capital finance issues raised by Councillor Beresford. The first assesses the arguments for a lower debt redemption rate for inner city housing receipts. The second outlines how authorities with a good track record of asset disposals might be rewarded.

Wandsworth have capital spending power of over £100m under the present capital control system, compared to an average of £50m for Inner London boroughs. This is a result of their successful sales policy, and the unintended freedom under the present system to spend all capital receipts over time, which in turn has led to a substantial reduction in Ministers' ability to determine the distribution and use of capital resources. The new system is intended to retain an incentive for authorities to dispose of assets and that is why they will be able to spend 25% of their housing receipts and 50% of other receipts. With these percentages Wandsworth are still likely to have more capital spending power than all, or nearly all, other Inner London boroughs. But a fundamental objective of the new system is to redress the balance in favour of the Government's ability to target resources. For that reason my Secretary of State and the Chief Secretary have been keen not to increase the benefit of receipts in the new system beyond that already proposed.

Against that background, my Secretary of State has considered very carefully the two options described in the notes below. In his view neither would be appropriate. Although the first could be presented as a positive move to help the inner cities, it goes against the fundamental objectives of improved targeting and suffers from two other disadvantages. Firstly, the Government's supporters in shire districts, many of whom have pursued aggressive sales policies like Wandsworth, would feel aggrieved that the debt redemption rules were being relaxed for those authorities with the highest debt. Secondly,

it would place great weight on the list of inner city authorities who would qualify. In particular it would make it very difficult to amend that list when it was sensible to do so. The proper way to help inner cities is to reflect their special needs in the assessments underlying the distribution of credit approvals.

The reward for asset disposals discussed in the second note also does not fit into the logic of the new system and on reflection has even less merit than the inner city approach. It would be very difficult to operate in a fair way. And it would be regressive, in that the more an authority generated from receipts, the greater proportion of them they would be able to spend. Nevertheless my Secretary of State appreciates the strength of Councillor Beresford's concerns and would like to provide whatever relief for Wandsworth he is able to within the objectives of the new system. He is considering two further options which may help.

Local authorities' credit approvals will be based on an assessment of their needs less a deduction to reflect their ability to meet those needs from capital receipts. It had been intended that the deduction should be based on authorities' actual receipts. But my Secretary of State has now asked officials to look at another approach, which would be to set "normative" receipts targets for authorities and to deduct a proportion of these from authorities' needs when setting credit approvals. That should benefit authorities like Wandsworth who would be likely to achieve more receipts than their target. My Secretary of State is amending the Bill to ensure such an approach could be adopted. But considerable further work is needed on the mechanism from setting targets and this option could not operate for 1990/91.

The second option would help Wandsworth and other authorities invest in their assets in order to encourage sales. Councillor Beresford refers to the importance of such investment in his letter to the Prime Minister. The option would relax the debt redemption provisions in relation to properties which had been improved before they were sold. When a local authority received a capital receipt from a property sale then the debt redemption rules would not apply to an amount of the receipt equal to the cost of capital works carried out on the property in a recent period. Again my Secretary of State is amending the Bill to allow such a relaxation to be given by regulations. Such a concession would apply to all property rather than just housing and could be justified as a means of encouraging cost effective improvement and rationalisation.

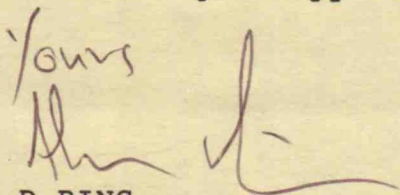
The Chancellor of the Duchy of Lancaster agrees that neither of the original options described in the notes below would be appropriate but that two further options are worth considering. Of the two, he finds the second more attractive. It would be of particular benefit to inner city authorities with large numbers of properties requiring improvement.

The Chief Secretary has no objection to further examination of the two new proposals. However, he is concerned about the effects on public expenditure of large deductions from receipts prior to the

reserved part being applied. He has therefore asked officials to assess the likely impact on public expenditure and an appropriate length of time over which refurbishment may be scored in order to minimise that impact. He recommends that final decisions be taken in the light of this further work.

Subject to the agreement of the Prime Minister, and to the Chief Secretary being satisfied about the details of the second option, my Secretary of State would propose to go back to Councillor Beresford outlining the options we are considering.

I am sending a copy of this letter to Carys Evans and John Alty.

Yours


A D RING
Private Secretary

LOWER DEBT REDEMPTION RATE FOR INNER CITIES

1. Under the new capital finance system local authorities will have to set aside 75% of their housing capital receipts and 50% of their other capital receipts for debt redemption. Councillor Beresford suggested there should be a lower debt redemption rate for inner city authorities. This note considers the case for reducing the debt redemption rate for housing receipts in the 57 urban programme authorities to 60%.

2. The debt redemption provisions serve two purposes. First they ensure that a prudent amount of capital receipts are applied to reduce local authority debt, which stands at £45 billion nationally. The case for this is greatest in the urban programme authorities, where debt per head is £1400 on average compared to £740 elsewhere. The second purpose is to improve the Government's ability to target resources on areas of need. The major problem of the present capital control system has been that spending from capital receipts has increasingly pre-empted capital resources and reduced the capital allocations which the Government can issue. The debt redemption provision in the new system will remove some of the spending power from receipts and thus enable the Government to issue more credit approvals for new borrowing.

3. This improved targetting will generally benefit inner cities, since their special factors lead to them being assessed as having high needs. Wandsworth, however, are an exception. Because of their very high cash backed receipts (£71m at March 1988 compared to an average of £21 m for Inner London boroughs), they will lose more from the debt redemption than they will gain from additional credit approvals.

4. A reduction to 60% in the debt redemption rate for inner city housing receipts would, unless public expenditure plans were increased, reduce the national total for credit approvals by about £100m from the present level of £2780m. Inner city authorities would benefit at the expense of other areas. The precise size of the benefit would depend on the extent to which we took account of their additional receipts spending power when setting credit approvals.

5. The advantage of this proposal is that it could be presented as a positive step to recognise the special needs of inner city authorities. It would enable these authorities to help themselves by generating more receipts rather than relying on credit approvals issued by the Government.

6. The main disadvantage is that it is hard to justify relaxing the debt redemption provisions for the authorities with the greatest debt. Inner city needs are already reflected in the distribution of resources. Many shire districts, who argue they too have special needs and have worked hard to generate receipts, would feel they merited the same treatment. And it would place great weight on the present list of 57 urban programme authorities. For some of these, the benefit of being on the list would be far greater as a result of relaxation of the debt redemption requirement than it is from the urban programme itself. For example, Wandsworth would enjoy £20m more spending power from receipts compared to an urban programme allocation of £3m this year. So the boundaries of the list would be subject to great scrutiny and any future changes to it, which may be justifiable on urban programme grounds, would become more difficult to make. Ministers have already told a number of local authorities that a review of the list is likely to be undertaken later this year.

TAKING ACCOUNT OF AUTHORITIES' PERFORMANCE ON ASSET DISPOSALS
IN SETTING HOUSING CAPITAL RESOURCES

1. This note explores the way in which the Department might reward local authorities with a good track record on asset disposals in determining resources for housing capital expenditure under the new capital system. The reward could take one of two forms, either:

(a) higher housing allocations (eg supplementary allocation from a central reserve);

(b) a higher percentage of receipts usable at the authority's discretion.

Of these the former would be a departure from the normal principle of distributing capital guidelines by reference to local need. By contrast (b) would operate on the receipts themselves, and appears more appropriate. Furthermore it could apply, if desired, once only: to accumulated receipts at the start of the new system.

2. The Department at present collects information from local authorities on sales of council dwellings, and has done so since 1979. This information can be compared with each authority's total housing stock. However, the data on some 50 (out of 366) authorities is incomplete, and cross checking against other returns submitted by authorities reveals high levels of inconsistency in the data we have.

3. It would therefore be necessary to devise a new return for authorities to record sales since 1979, together with the total stock remaining in each year, and this would be subject to certification by the authority's auditor. If the Department was to award higher capital allocations (option 'a') as a result of successful asset disposal, authorities would have to submit these forms or fail to qualify; the allocations would run on data two years' old. Alternatively, if authorities were rewarded with a higher percentage of usable receipts (option

'b' they would not be required to make bids to the Department but would calculate their own entitlements to use receipts, under Regulations, and statistics could be collected for the year in question. A return to DoE would then be used to monitor the system.

How the system would work

4. The system would work by setting a threshold, with those authorities achieving asset sales above the threshold figure being rewarded for their performance. A simple system would consider asset sales from 1979 to 1989 and award additional resources once only at the start of the new system in April 1990. (This would be appropriate if, for example, the reward was a higher percentage of accumulated receipts to be usable at the authority's discretion). A more elaborate scheme would roll forward, to give additional incentives to future sales. If the scheme took the form of a single threshold of the percentage of dwellings sold since 1979, over time more authorities would reach it. But once that threshold was exceeded there would be no new incentive to authorities. Alternatively, the threshold could be applied year by year on the basis of the percentage of stock sold in a year, although that would induce authorities to avoid overshooting by a substantial margin in case next year's task was harder - it would therefore be necessary to ensure the threshold was not set too low. On balance, none of these more elaborate schemes appears satisfactory, and a once-for-all reward in 1990/91 seems preferable. Some 160 authorities might exceed a threshold of 25% sales in 1979-1989, and Wandsworth (who are thought to have sold 27%) would be included.

5. Whichever mechanism was adopted, it might be considered invidious to set a single, arbitrary threshold, especially if the reward for high sales were to be substantial. A system of two or three thresholds, with increasing rewards, might be fairer. Sales also vary for reasons outside authorities' control: they are higher where earnings are high (eg in the south east and east); and they reflect the popularity of houses over flats, and so tend to be lower in urban areas. It

might therefore be desirable for the upper threshold to be raised in the South East, East, East Midlands and South West (eg up to 30%), and reduced for the North and all metropolitan districts (eg to 20%). We estimate that around 84 authorities might be above these redefined thresholds - still a high number in relation to the 366 housing authorities.

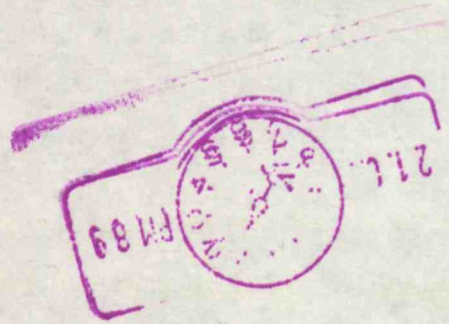
Conclusion

6. A scheme that provided an extra inducement to new sales, year-by-year, and allowed authorities throughout the country the prospect of a reward for good performance, would be complex and costly to run. It does not appear to bring substantial extra benefits because authorities will already have the incentive of 25% usable receipts from the sales of dwellings (a higher reward for higher receipts). And in the housing field there are mandatory provisions for sale under the Right to Buy and Tenants' Choice, so the need for incentives is reduced.

7. However, a simpler scheme could be devised in relation to accumulated receipts at 1 April 1990. Further work would be required to assess the threshold to be set and, to prevent the scheme being seen as grossly invidious, different thresholds might be needed for different parts of the country. Whilst authorities achieving those thresholds could perhaps be given enhanced capital allocations from a central reserve (option 'a'), that could seriously distort the needs assessment on which the distribution is based. If performance on asset sales is to be pursued at all, we would recommend that it would be more appropriate to increase the usable percentage of accumulated receipts (option 'b'). This however is separately discussed in the context of a concession to the 57 inner city authorities.

LAH

June 1989





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Self

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Paul Gray Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
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Note

My ref:

Your ref:

*Overaken by subsequent
E(LF) discussions
on the safety net.*

13 June 1989

Dear Paul,

*REC 6
2/7*

Thank you for your letter of 15 May. I am sorry not to have replied before now.

The Prime Minister asked for a note on the community charge aspects raised by Councillor Beresford and a comparison between Wandsworth's charge and those of other London boroughs. I enclose a one page summary together with a fuller note and a table giving illustrative figures for all London boroughs. These figures have not been published. They are based on our latest assumptions and could be changed by decisions still to be taken on issues such as the safety net and need assessments. The note goes wider than the main issue raised by Councillor Beresford, namely the ring fencing of the Housing Revenue Account, since a wider view is needed to explain the factors affecting Wandsworth's charge and these of other London boroughs. Wandsworth's illustrative community charge with the benefit of the first year of the safety net as currently envisaged is £219, the lowest in London. This would rise to £463 over four years as the safety net is phased out, unless Wandsworth can make expenditure savings, for which there should be scope on the education services inherited from ILEA.

My Secretary of State is still considering the capital finance issues which Councillor Beresford has raised, in particular that proposed for a different debt redemption rate for inner cities. I will let you have the further notes the Prime Minister has asked for as soon as possible, when my Secretary of State has consulted the Chief Secretary and the Chancellor of the Duchy of Lancaster.

I am copying this letter to Carys Evans and John Alty.

*Tom,
A D RING*

A D RING
Private Secretary

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COMMUNITY CHARGE: WANDSWORTH

Summary

Wandsworth has an average rate bill per adult of £192 per adult in 1989/90, the lowest in London.

Wandsworth's illustrative full community charge in 1989/90 for the same level of spending would have been £376, the second lowest in inner London.

Abolition of ILEA would have increased Wandsworth's community charge by about £6 to £382.

Ring fencing of the HRA would have increased Wandsworth's full community charge by a further £81 to £463, still below most of inner London (all but City, Kensington and Chelsea and Westminster).

The safety net would pay grant to Wandsworth to reduce its charge by £244 to £219, bringing it back towards the average rate bill per adult of £192. This would be the lowest in London.

The charge would then increase to £463 over 4 years as the safety net was phased out unless Wandsworth reduced spending.

New needs assessments could reduce full community charges for Wandsworth and other inner London boroughs.

Wandsworth will be able to transfer interest on the useable 25 percent of its housing capital receipts from the HRA, to keep down charges, but the effect is likely to be small.

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COMMUNITY CHARGE: WANDSWORTH

Wandsworth's 1989/90 average rate bill per adult is £192 (see column 1 of table) compared with an average bill in inner London of £327. It has the lowest rate bill per adult in London.

To raise the same revenue ^{without safety net} Wandsworth would have to set a community charge of £376 in 1989/90 (see column 2). This would still be below the inner London average charge of £524. Only Kensington and Chelsea would have a lower charge in inner London but several outer London boroughs would have charges below £300.

For most inner London boroughs community charges would be higher than average rate bills per adult largely because the whole of ILEA's overspend falls on all inner London boroughs as an equal amount per adult. With rates, ILEA's overspend is distributed between boroughs in proportion to rateable value; ILEA's poundage is relatively low because of London's high rateable resources. Authorities with high rateable values per adult (particularly the City, Westminster and Kensington and Chelsea) have lower community charges than rate bills largely because of this change in the distribution of ILEA's precept. But authorities with low rateable values per adult would have community charges higher than average rate bills. Wandsworth falls in the latter category, as do boroughs like Greenwich and Tower Hamlets. Most of the increase from Wandsworth's rate bill of £192 to a charge £376 can be explained by this change.

But further factors will also lead to changes in Wandsworth's community charge. Firstly, with the abolition of ILEA, the costs of education will fall to authorities in relation to the number and size of schools they run, rather than proportionately to adult population. The grant system will also adjust through the needs assessments. The net effect would be a further £6 increase

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in Wandsworth's community charge to £382 (see column 3). By comparison this change could increase charges in Greenwich by as much as £54 and reduce those in Kensington and Chelsea by a further £104.

The second major factor is the ring fencing of the Housing Revenue Account. This is the factor on which Councillor Beresford has concentrated. Wandsworth will no longer be able to transfer the surplus on the HRA to the general fund. Needs assessments will no longer assume that Wandsworth needs to make a transfer the other way. Together these changes would lead to an £81 increase in Wandsworth's charge to £463 in 1989/90 (see column 5). Kensington and Chelsea similarly have charges £64 higher than if the HRA were not ring fenced while Islington would have a £111 reduction in charge because it would no longer be allowed to subsidise the HRA from chargepayers.

All of these changes will fall within the scope of the safety net. On present proposals Wandsworth will receive a transitional grant in 1990/91 which will allow it to keep its community charge at the same level in real terms as its average rate bill per adult in 1989/90, provided it keeps its spending broadly constant in real terms. Operated purely within 1989/90, such a safety net would have given Wandsworth a transitional grant of £244 per adult (see column 7) allowing it to keep its community charge for the same level of spending down to £219. Most other inner London authorities will also receive safety net grants. But the safety net is self financing so authorities such as Kensington and Chelsea and Westminster contribute up to £75 per adult because their full community charges are below their average rate bills per adult.

It is ^{currently} proposed that the safety net should be phased out over the next four years by withdrawing 25 percent of the transitional grant each year. With constant spending, Wandsworth's charge

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would rise by £61 a year to move from the first year charge of £219 to a full charge of £463. Wandsworth can limit these increases by making expenditure savings, which should particularly be possible on the education service inherited from ILEA.

Other changes between 1989/90 and 1990/91 could help Wandsworth and other inner London boroughs. A needs assessment for inner London education which was higher than ILEA's grant related expenditure (GRE) would help to bring down community charges for most inner London boroughs. Changes to needs assessments for other services could also help.

It is now proposed that in 1990/91 authorities will be able to transfer all of the interest on the useable 25 percent of their HRA capital receipts from the HRA to the general fund. This will allow Wandsworth to continue to make a transfer from the HRA to keep down community charges. But the transfer will be much smaller than in the past because 75 percent of housing capital receipts have to be set aside to redeem credit.

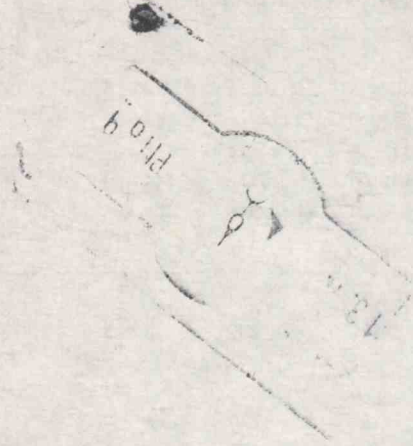
None of the figures in this note are published at present. DOE Ministers do not intend to publish the 1989/90 illustrative community charges until more complete expenditure information is available from authorities. There are no plans to publish information of the effect of ILEA abolition or of ring fencing of the HRA.

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PROVISIONAL 1989/90 COMMUNITY CHARGES

	COL 1 1989/90 average rate bill per adult (£)	COL 2 1989/90 full community charge (£)	COL 3 Effect of ILEA abolition (£)	COL 4 Charge after ILEA abolition (£)	COL 5 Effect of ring- fencing the HRA (£)	COL 6 Charge after ring- fencing (£)	COL 7 Safety net adjustment (£)	COL 8 1989/90 first year community charge (£)
City of London	514	493	-181	312	-5	306	75	381
Camden	424	580	6	586	-41	544	-94	451
Greenwich	271	593	54	647	2	649	-352	297
Hackney	333	577	-33	544	-24	520	-160	360
Hammersmith and Fulham	354	650	38	688	2	690	-309	381
Islington	423	669	42	711	-111	600	-150	450
Kensington and Chelsea	373	339	-104	235	64	299	74	373
Lambeth	300	552	-10	543	3	546	-219	327
Lewisham	261	508	-7	502	5	507	-219	288
Southwark	267	550	9	559	9	568	-274	293
Tower Hamlets	267	521	-27	494	140	634	-340	294
Wandsworth	192	376	6	382	81	463	-244	219
Westminster	558	396	2	398	9	407	75	482
Total Inner London	327	524	-0	523	11	535	-192	343
Barking and Dagenham	232	256	-	256	111	367	-109	259
Barnet	343	235	-0	235	-0	235	75	310
Bexley	235	250	-	250	0	250	-	250
Brent	467	561	0	561	-10	551	-57	493
Bromley	242	189	-	189	27	215	26	242
Croydon	254	172	-	172	1	173	75	248
Ealing	305	336	0	336	3	339	-7	332
Enfield	300	274	-	274	2	276	24	300
Haringey	506	627	-	627	5	632	-100	532
Harrow	311	253	-	253	1	254	56	311
Havering	244	219	-	219	13	232	12	244
Hillingdon	311	337	-0	337	24	361	-23	338
Hounslow	354	405	0	405	-50	355	-	355
Kingston-upon-Thames	308	276	-	276	7	283	25	308
Merton	270	238	-	238	51	289	-	289
Newham	338	445	0	445	-34	411	-46	365
Redbridge	219	187	-	187	35	222	-	222
Richmond-upon-Thames	339	255	-	255	1	257	75	332
Sutton	294	256	-0	256	3	259	35	294
Waltham Forest	309	340	-0	340	-21	319	-	319
Total Outer London	308	301	-0	301	7	308	7	315
TOTAL London	314	378	-0	378	9	387	-62	325

LOCAL GOV.: Correspondence
with Air Base, etc.,
Feb 23



CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 May 1989

Dear Roger,

CORRESPONDENCE WITH COUNCILLOR PAUL BERESFORD

Thank you for your letter of 8 May, which the Prime Minister has seen.

The Prime Minister thinks that efforts should be made to try to avoid the difficulties Councillor Beresford has identified. She would therefore be grateful for an assessment of his arguments for a different debt redemption ratio for housing receipts in relation to inner cities policy; she wonders, for example, whether a 60/40 ratio rather than 75/25 might be appropriate for inner city authorities, which would still help very considerably with debt redemption while leaving something more for refurbishment of old properties. She would also be grateful for further information on the possibility of taking into account authorities' track record on asset disposal in the distribution of credit approvals, and the extent to which this would ease Wandsworth's concern. Finally, she would be grateful for a note on the community charge aspects raised by Councillor Beresford, including the likely comparison between Wandsworth's charge and those of other London boroughs.

68/1 The Prime Minister would be grateful if your Secretary of State could co-ordinate his response with the Treasury and Department of Trade and Industry; I am therefore copying this letter to Carys Evans (Chief Secretary's Office) and John Alty (Chancellor of the Duchy of Lancaster's Office).

Yours,
Paul

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment.

CONFIDENTIAL

File PA
C. V. Wintlingdale
QR TO KEEP

LRP

PRIME MINISTER |

COUNCILLOR PAUL BERESFORD AND THE WANDSWORTH PROBLEM

You may recall that Councillor Beresford approached you at the recent CPS meeting to reiterate his concerns about the impact of the new local authority capital regime on Wandsworth. You had had earlier correspondence with him about this, and had asked DOE Ministers to get in touch with him.

Since we had heard nothing from them I have chased DOE for a progress report. That is now provided in the letter of 8 May from Nick Ridley's office (Flag A). This summarises the problems and promises further consideration of them, but suggests that DOE are unlikely to come up with any radical changes.

The Policy Unit have also looked into this. John Mills' note (Flag B) provides a very helpful commentary on the problems, and gives a suggested way forward (see pages 6-7). John recommends that you urge DOE (and other Ministers concerned) to make every effort to ease Wandsworth's problems, in particular to explore allowing inner cities' authorities to use a bigger proportion of their housing receipts on new spending and the possibility of taking into account authorities' track record on asset disposals when credit approvals are made.

John's note also explains that none of these ideas is without its difficulties. Although I assume you will want to see what can be done to help Wandsworth, it will be important to avoid undermining on a national basis the key objectives of the new local authority capital regime which were agreed last year in E(LF). Equally it will be important to avoid improving Wandsworth's position at undue cost for other areas and boroughs: this may apply particularly to the community charge point, on which you have separate correspondence from Shirley Porter complaining about how high Westminster's community

charge will be relative to Wandsworth! This underlines the desirability in John's last suggestion of asking for a note on the community charge aspects comparing the position with other London boroughs.

Content for me to minute out in the terms John Mills suggests, emphasising the importance of co-ordination with the Treasury and DTI?

Paul

(PAUL GRAY)

12 May 1989

DA2AAS

Yes -

*Guidance by John Mills
minutes a 60:40
ratio would be
reasonable with help
very considerably with
debt-reduction while
leaving something for
rehabilitation of old properties
not*

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B

PAUL GRAY

11 May 1989

cc John Whittingdale

WANDSWORTH: LOCAL GOVERNMENT AND HOUSING BILL

Beresford's essential point is that the new capital control regime will be a political own goal for the Government in the inner cities, and especially inner London, because

- it will undermine what Wandsworth is doing to refurbish and sell 'difficult' council housing (and improve the environment and reduce crime and litter on estates in the process);
- it will undermine any chance of a similar process in inner cities generally just when several authorities, such as Bradford and some Labour ones in London, are beginning to realise the benefits of a Wandsworth-type approach to improving their estates;
- it will force up Wandsworth's Community Charge through restricting use of its housing revenue surplus for general purposes, and thus weaken the crucial association in people's minds between low community charges and well run Conservative-controlled authorities.

He is pleading for Wandsworth not to be penalised for vigorous pursuit of Government policy, and warning of the political consequences if it is.

Wandsworth has pursued an aggressive policy of council house sales. It has used the receipts to improve poorer stock and thus promote further sales of flats regarded before as totally unsaleable. It has already achieved owner-occupation rates of 25%-55% in its tower blocks which has no parallel

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in the rest of inner London. Significant improvements on estates have sharply reduced crime and made a big impact on litter and graffiti. Through good management a surplus on the housing revenue account has been built up and used to keep the rates down. The beneficial impact of all this is readily visible, and in very sharp contrast with the situation in adjacent Lambeth.

Under the new regime, 75% of housing capital receipts will have to be used to repay debt, thus reducing what is available for refurbishment and in turn jeopardising sales. The Treasury estimates that if the new system applied this year, Wandsworth's spending power from receipts would have fallen from £90 million to £40 million. Wandsworth itself estimates (although the Treasury thinks it's rather on the high side) that ring-fencing the Housing Revenue Account, a policy designed to stop subsidy of housing by community charge payers, could add £90 to its community charge. Hence the seriousness of the problem in Beresford's eyes, as he looks ahead to defending his very small majority in next year's elections.

Moreover, under the new system of credit approvals, authorities with high receipts will, in broad terms, receive less from central government and vice versa. As Beresford says, this will not only disadvantage those like Wandsworth which have been disposing of assets in line with Government policy, but will also remove any real incentive from Labour authorities to start disposing of them in a methodical way.

The new regime is a blunt instrument to bring under control the overall problem of high unused local authority receipts. Beresford recognises this, but is urging Ministers to focus on the political consequences, especially in inner London where there remains so much housing stock in poor condition on 'difficult' estates. His original letter of 22 February to the Prime Minister brings this out.

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What he chiefly seeks is for inner city authorities like Wandsworth to be able to retain a higher proportion of housing receipts than the 25 per cent as now proposed in the Bill.

It is conceded by the Treasury and DOE that the new regime will put a brake on what Wandsworth has been doing, and inhibit other authorities (like Bradford) following suit. The issue for decision is whether the political consequences of this warrant a rethink: either

- a change in the debt redemption ratio for housing receipts from 75:25 to, say, 60:40 for inner city authorities; or
- a method of allocating credit approvals which takes specific account of track records on asset disposal.

A change in the 75:25 debt redemption ratio for inner city authorities

The arguments against any change:

- the aim of the policy is to reduce local authority debt. Inner city authorities have by far the highest debt (Wandsworth is double the national average, but 60% of the inner London average);
- an increase in potential local authority spending power would increase General Government Expenditure (GGE);
- a change would upset carefully laid plans which have now gone through committee stage.

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The arguments for a change to, say, 60:40

- it would go some way to enabling Wandsworth to maintain its programme;
- it would somewhat increase the incentive to inner city authorities to refurbish estates, thus increasing sales potential, and to use sale receipts to carry forward the process;
- it would still leave a substantial amount (60% of receipts) for debt redemption and the impact of GGE would be fairly marginal;
- it would tie in with inner city policy and the objectives of reduced crime and litter through the improvement of poorer housing estates.
- it is not too late to amend the Bill.

A changed method of allocating credit approvals

The Bill sets out the general principles to be followed but DOE have not yet settled the exact method. But basically, the higher the receipts the less the credit approval. It ought to be possible to ensure that the Secretary of State had to take into account as a matter of policy either the unsold assets of an authority or its track record in disposing of assets in order to favour those which were disposing and encourage those which were not to start. Such an approach is hinted at in DOE's letter (bottom of page 2) but there is no indication of any commitment to it. It warrants exploration. It is doubtful it could be as attractive to Wandsworth as a change in the ratio, but it could provide a way forward.

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Impact on Wandsworth Community Charge

The Treasury is sure that Beresford has overstated this problem. But it is nevertheless a real one. Ring-fencing the Housing Revenue Account (HRA) is designed to stop profligate authorities subsidising tenants from the rates. In Wandsworth it has gone the other way: good management of the HRA has enabled them to use it to subsidise the rates. Thus next year's transition to the community charge will be the more painful because of a low rates base and the removal of the subsidy.

There is little room for movement on this, although the Treasury's detailed points may abate Beresford's concern a little. But it will still be another pressure point next year in Wandsworth, which makes it all the more important actively to look for solutions to Beresford's main problems.

Conclusion

There is a sound overall basis to the new capital control regime: control over the high level of local authority capital receipts and the reduction of debt. These changes go hand in hand with the change on the revenue side to the new system of credit approvals.

But the policy is a blunt instrument and needs sharper edges to avoid perverse results. Curtailing Wandsworth's vigorous pursuit of Government policy would certainly be perverse and could have damaging political consequences. It is not enough to say there is no option to Wandsworth's freedom of action being curtailed. A lot of hopes ride high on Wandsworth.

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The scale of action to be taken depends on the political assessment. With no change of approach by DOE and the Treasury, it will be possible to give Beresford a little comfort on the community charge and other points of detail. Even with an effort to be flexible the DOE's letter (which is couched in very cautious language) only envisages help at the very margin. But to move towards any meaningful impact on the main problem of the level of useable capital receipts requires a creative look at the system now being set up to see how it can be better moulded to meet political and policy needs in inner London if not all the inner cities. At the very least some more questioning is required.

Recommendations

I suggest that the Prime Minister

- indicates that an adverse impact on Wandsworth would be perverse and intrinsically unsatisfactory, and that all effort should be made to avoid it;
- asks for an assessment of Beresford's arguments for a better debt redemption ratio for housing receipts in relation to inner cities policy generally;
- seeks further information on DOE's hint about taking track record on asset-disposal into account in distributing credit approvals, and whether this would really meet Wandsworth's concern;
- requests a note on the community charge aspects raised by Beresford, particularly regarding the likely comparison between Wandsworth's charge and those of other London boroughs.

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The above should be coordinated as necessary with John Major and Tony Newton.

In the meantime Beresford should be seen by Nicholas Ridley or John Gummer and told frankly that his political concerns are on board and the Government will do all it properly can to mitigate them. Any misconceptions he may have on the community charge and other points of detail can also be cleared up. This will keep the door open while options are further explored on the presumption of help not hindrance to Wandsworth.

John Mills

JOHN MILLS

CONFIDENTIAL



cc J.M. 11/6
PPS with PG on SL
RPS
A
2 MARSHAM STREET
LONDON SW1P 3EB

01-276 3000

My ref:

Your ref:

Paul Gray Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

8 May 1989

Dear Paul

CORRESPONDENCE WITH COUNCILLOR PAUL BERESFORD

We spoke about the letter from Councillor Beresford to which the Prime Minister sent a holding reply on 16 March. Ministers here have since been considering the point raised by Councillor Beresford. I apologise for the delay in contacting him; Mr Gummer has now had a word with him.

Councillor Beresford has two main concerns. First, that the new capital finance system will reduce the amount Wandsworth can spend from their capital receipts at their own discretion. Secondly, that the new financial regime for local authority housing will restrict Wandsworth's use of the interest earned from their housing capital receipts to hold down the community charge. Before writing to the Prime Minister he discussed these issues with my Secretary of State and Mr Trippier.

The difficulty is that Wandsworth have taken full advantage of the weaknesses of the present capital and housing finance system which permit local authorities to spend according to their priorities rather than ours and about which Ministers receive frequent representations from authorities of all political colours. If our new systems are to tackle these weaknesses then it is inevitable that, to some extent, Wandsworth's freedom of action will be contained.

On capital, the present control system has been distorted by growing spending power from accumulated capital receipts. A major reason for this growth is that receipts can in effect be used twice, once to repay debt or finance certain capital expenditure that is not controlled directly and then again to justify an increase in an authority's controlled spending limit. The new

system will allow receipts to be used once only. Part will be set aside to reduce the authority's indebtedness and part will be available for additional capital spending. The setting aside of some receipts to reduce indebtedness has two advantages. First it reduces the considerable burden for local authorities of servicing their debt, which nationally costs £6 billion a year. Secondly the fact that not all receipts will be available for additional spending will enable the level of credit approvals issued by the Government to be higher than would otherwise be the case. This will enable Ministers to target resources more effectively on needs, including the special needs of inner cities and homelessness. That is a major objective of the new capital system.

On housing, Wandsworth have also benefited from the present system. They have been able to transfer to the general rate fund surpluses from their Housing Revenue Account. These surpluses have in part been built up with the help of Exchequer support through Main Housing subsidy. They have been added to by further Exchequer support for housing through the Rate Support Grant. The intention of the new financial regime is to prevent such Exchequer support, which is intended for housing purposes, being used to subsidise the community charge payer. The change will help accountability since it will clarify the relationship between Wandsworth's spending and their need for those services paid for by the charge payer. Again it is difficult to help Wandsworth substantially without undermining a fundamental objective of the new system.

The main point on which Wandsworth seek movement is the proportion of receipts that has to be set aside for debt redemption. The Local Government and Housing Bill provides that this should be 75% for council house sales and 50% for other receipts. Councillor Beresford accepts the need for such rates nationally but suggests reducing them for inner city authorities. My Secretary of State feels it would be difficult to justify relaxing the debt redemption provisions for the authorities with the greatest debt. Wandsworth have debt of £2240 per adult, lower than the Inner London average of £3690 but double the national average of £1130.


Having said that, my Secretary of State agrees that Wandsworth's record on asset sales and the changes they have brought about in the estates is impressive. He is keen to do what he can to mitigate the effect on them of the new systems provided that the main objectives of these systems are not undermined. Ministers here are looking at ways of ensuring that, in operating the new capital finance system, they will be able to take full account of local authorities' track record in realising assets and their efficiency in making good use of resources, when credit approvals are distributed.

On the revenue side, the benefit of the interest earned on any of the housing capital receipts available for spending which are not in fact spent will be transferred to the general fund. Wandsworth will thus continue to be able to use some of this housing surplus for the benefit of the community charge payers. We are also looking at the rules governing the transition to the new financial regime and have identified at least one point on which Wandsworth and other authorities in a similar position can be assisted without doing violence to our basic objective.

Decision on some of these major distributional aspects of the new systems are needed shortly. When they have been made, it may prove possible to offer some help to Wandsworth in the ways outlined above, either generally or on a transitional basis. But my Secretary of State considers it would be dangerous to settle these matters before then in the interests of one authority. He will also want to discuss any decisions with the Chief Secretary (whom Councillor Beresford has also approached) and Ministers in other spending Departments.

I hope this explains why my Secretary of State has not been in touch with Councillor Beresford before now. When he and his colleagues have taken the appropriate decisions on the distributional aspects of the new system we shall consider urgently their impact on Wandsworth and whether any help at the margin would be appropriate. And before then, we shall keep Councillor Beresford in touch with progress.

I am sending a copy of this letter to Carys Evans in the Chief Secretary's Office.



R BRIGHT
Private Secretary

Councillor Paul BERESFORD

S/S

✓ JW - to see
GR.
2-L.F. - M B.F.
a S/S.

2
PRIME MINISTER

WANDSWORTH AND CAPITAL RECEIPTS

RCG
2/5

John Whittingdale tells me that Councillor Paul Beresford had a word with you last evening about his worries on the new local authority capital regime.

You will recall that you wrote to him last month saying that Nick Ridley would be getting in touch with him for a discussion. I have checked the latest position with DOE, and they will be letting us have a progress report next week.

I have also had a word with John Major's office to check the position on Paul Beresford's exchanges with him. I gather that John Major is waiting for a further note from Beresford, but I have suggested that John Major should liaise with DOE Ministers.

RCG

mt.

P. GRAY
28 APRIL 1989

MRMAQD

PA existing file
(WANDSWORTH
Council)



File PMBALD

cc DOE

+ chert Sec.
HMT

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

16 March, 1989.

Dear Councillor Beresford,

Thank you for your letter of 22 February about our proposals for local authority capital and housing finance.

I have studied your letter carefully and fully appreciate your concerns.

I have therefore passed your letter on to Nicholas Ridley and have asked him to get in touch with you direct in due course when he has looked at the detailed points you make and is in a position to discuss these with you.

Kind regards,

Yours sincerely

Magaret Thatcher

Councillor Paul Beresford

Jolman

PRIME MINISTER

The Leader of Wandsworth Council is clearly worried about how they will do out of the new system of local authority capital and housing finance. Under the present system they have been able to spend a large part of the substantial capital receipts they have generated and at the same time to use the Exchequer subsidy intended for housing to hold down the rates. It will not be straightforward, therefore, if the Government's objectives of fairness and accountability is met to ensure that Wandsworth benefit under the new systems. Mr. Ridley is looking at the points Councillor Beresford has made to see if he can offer any help on this without undermining the fundamental objectives of the Government's reforms.

Are you content to send the attached short reply to Councillor Beresford?



DOMINIC MORRIS

15 March 1989



R14/3

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

P A Bearpark Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

14 March 1989

(DM)

Dear Andy,

CORRESPONDENCE WITH COUNCILLOR PAUL BERESFORD

Following Roger Bright's letter of 3 March to Dominic Morris and your reply of 8 March you have been in further contact with Roger about a response to Councillor Beresford.

I attach a revised draft letter for the Prime Minister to send to Councillor Beresford which is slightly more forthcoming. I hope this meets your requirements.

Yours,

Deborah.

DEBORAH LAMB
Private Secretary

DRAFT LETTER FROM THE PRIME MINISTER TO SEND COUNCILLOR BERESFORD

Thank you for your letter of 22 February about our proposals for local authority capital and housing finance.

I have studied your letter carefully and fully appreciate your concerns.

I have therefore passed your letter onto Nicholas Ridley and have asked him to get in touch with you direct in due course ^{so that} when he ~~is~~ ^{has} ~~ready~~ ^{is} to discuss your ~~worries~~ ^{concerns}.

Looked at the detailed points you make & is in a position to discuss them with you.

PMBARD

Cllr. P. BERESFORD

15/3



Vno

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 March 1989

Your letter of 3 March to Dominic Morris concerning the correspondence from Councillor Beresford about the Local Government's Housing Bill refers. I can readily see that it may be a little time before a detailed reply can be sent, but is there any particular reason why you would prefer the Prime Minister not to sign it? My instinctive feeling is that she would like to write to him. I await your further advice.

P. A. BEARPARK

Roger Bright, Esq.,
Department of the Environment.

[Handwritten signature]

23/3



2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

Dominic Morris Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

3 March 1989

Dear Dominic

Thank you for your letter of 23 February covering a letter from Councillor Beresford, Leader of Wandsworth Council, to the Prime Minister.

Councillor Beresford expresses concern about the proposals in the Local Government and Housing Bill for new systems of local authority capital and housing finance. He discussed some of these concerns with my Secretary of State and Mr Trippier last year.

The difficulty is that Wandsworth have done rather well under both the present capital and housing systems. They have been able to spend a large part of the substantial capital receipts they have generated. They have also been able to use Exchequer subsidy intended for housing to hold down the rates.

It will not be easy, therefore, if the Government's objectives of fairness and accountability are to be met, to ensure that Wandsworth benefit to the same extent under the new systems. Nevertheless my Secretary of State is looking at the detailed points Councillor Beresford has now made to see if he can offer any help on these without undermining the fundamental objectives of the Government's reforms. A draft interim reply to Councillor Beresford, promising a response from my Secretary of State, is attached.

*Yours sincerely
Roger*

R BRIGHT
Private Secretary

DRAFT LETTER FROM THE PRIME MINSITER TO COUNCILLOR BERESFORD

Thank you for your letter of 22 February about our proposals for local authority capital and housing finance.

I have passed your letter on to Nicholas Ridley who will be in touch with you shortly.

Cllr. P. BERESFORD

9/3



pm

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

am/

23 February 1989

I enclose a copy of a letter which the Prime Minister has received from Councillor Paul Beresford, Leader of Wandsworth Council.

I should be grateful if you would provide a draft reply which the Prime Minister might send to Councillor Beresford by Thursday, 9 March.

(D. C. B. MORRIS)

Alan Ring, Esq.,
Department of the Environment.

ca

MR GRAY

I attach a letter I have received from Paul Beresford, leader of Wandsworth Council, covering a copy of a letter he has sent to the Prime Minister. Obviously you will wish to get advice on this but I think Mr Beresford merits a personal ^Prely rather than a Private Secretary's letter. In my inexperienced view, he seems to have a point.

JHW

JOHN WHITTINGDALE

22.2.89

cc MR MILLS



Wandsworth

From the Leader of the Council

*Leader's Room
The Town Hall, Wandsworth High Street,
London SW18 2PU*

J. Whittingdale, Esq.,
Political Secretary,
Prime Minister's Office,
10 Downing Street,
London, SW1A 2AA.

22nd February 1989

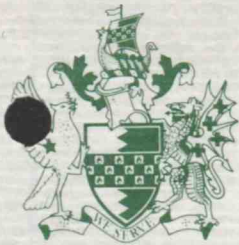
Attached is a copy of a letter sent to Mrs. Thatcher.

The fact that I have written to her personally is an indication of the importance I place on this matter and that I seem to be blocked in my normal avenues.

Therefore, I would be extremely grateful if you would ensure the Prime Minister is able to see the letter rather than it being lost in the system.

Regards.

Paul.



Wandsworth

From the Leader of the Council

R22/c

Leader's Room
The Town Hall, Wandsworth High Street,
London SW18 2PU

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, SW1A 2AA.

22nd February 1989

Dear Mrs Thatcher,

There is evidence that Government action is forcing change in inner city authorities. The Right to Buy, financial restrictions, compulsory competitive tendering and so on are directly and indirectly changing the attitudes of even left wing authorities.

However, I am very concerned that the proposals from the Department of the Environment on the re-use of capital receipts and on the revenue benefits of capital receipts are going to generally damage our progress, both politically and on the ground.

The change of tenure on Wandsworth Council estates, coupled with major capital reinvestment, has had a dramatic effect. The inner city decay downward spiral has been reversed. Both private and public housing has been vastly improved, as have roads, pavements, parks, and leisure facilities. Wandsworth's rates are the lowest in London, and unemployment the lowest in inner London. Crime rates, particularly on council estates, have tumbled, especially relative to neighbours with similar problems. The reinvestment on estates has encouraged sales. The consequential change of tenure has altered social and voting attitudes. Most tower blocks in Wandsworth are now between twenty-five and fifty percent owner-occupied, and this is increasing.

Labour inner city boroughs have resisted sales but always aimed for high capital investment from borrowing. The example of Wandsworth's success, coupled with the restricted borrowing allowance, is slowly forcing these authorities to look again at sales, both of housing and of council land. With this avenue open, attempts to blame the Government for the state of their own stock, have a distinctly hollow ring. Unfortunately, all these successes and hopeful trends are now at risk.

/Cont'd.....

The Rt. Hon. Margaret Thatcher, MP

22nd February 1989

Ministers' announced intentions in regard to the Housing and Local Government Bill are that the re-use of capital receipts from housing sales is to be limited to 25% and receipts from other sources generally to 50%. There are also severe sales disincentives from the point of view of revenue which are noted in the attached paper. While having complete sympathy for the concern of the Treasury and the Department of the Environment for a more sensible distribution of spending power, I feel its across-the-board restrictions will be damaging to the Conservative cause. In the Inner Cities, some modification of this approach is necessary, to allow much higher proportions of receipts to be reinvested.

In contrast to the Shire Counties and Districts, the aggregate of capital receipts held by inner city boroughs is relatively small in relation to their evident needs, so the net effect on direct Government control of expenditure would be insignificant. Maintenance of worthwhile revenue benefits from housing sales may appear to represent a loss to the Exchequer, but this is likely to be offset by the higher volume of sales thereby generated.

Inner London has a special problem with the transfer of education from the ILEA to the boroughs. The ILEA's lack of investment in buildings, and stock, has left an enormous burden for the inner London boroughs. All these authorities of all political complexions accept that, in time, they will be able, through better management, to gain capital receipts from surplus sites - only then to be restricted to fifty percent usage.

I have put these points to Mr. Ridley directly on the revenue aspect, and indirectly, through Mr. Trippier, on capital.

I spoke particularly to Mr. Trippier as I feel the political answer is through the Conservative inner city campaign. The inner city boroughs, with the needs, should be encouraged to seek sales and reinvest the capital receipts. Obviously, this will ultimately have a beneficial effect to the Conservatives, especially as failure to boost sales would be for these local authorities to fail their residents, and to invite direct Government action, such as UDCs, HATs, etc. At the same time, special treatment of capital receipts for designated inner urban authorities could be presented as Conservative concern to help the inner city areas of need.

/Cont'd.....

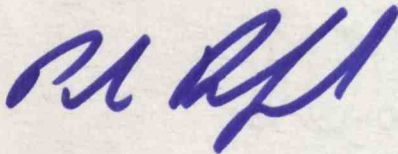
The Rt. Hon. Margaret Thatcher, MP

22nd February 1989

The oral reply I received from one of Mr. Trippier's officials that "inner city areas in need would be compensated by increased credit approval taking into account capital receipts available" smacks of a Socialist approach and leaves the Government entirely vulnerable to local authority blame for lack of investment. Following the visit to you on July 8th 1986, changes were introduced into the then proposals on capital receipts, allowing increased expenditure within boroughs such as Wandsworth in the inner cities. Conservatives in inner city authorities, particularly Bradford and Wandsworth, would wish that similar concern for their difficulties, should be shown again.

The terms of the Bill would permit the modifications of approach which I am urging. What is lacking is explicit recognition at Ministerial level of the need to maintain and encourage local authority sales programmes in inner cities. Meanwhile, the encouraging trends are losing impetus, and could disappear altogether.

Yours sincerely,



Paul Beresford
Leader of the Council.

Encls.

PROBLEMS WITH DEPARTMENT OF THE ENVIRONMENT PROPOSALS
FOR HOUSING AND OTHER SALES PROCEEDS

Threat to Inner City improvement

PROBLEM

DoE proposes to restrict use of sale proceeds to finance capital expenditure (25% housing, 50% other) and to have regard to the proceeds available when deciding the amount of credit approval.

EFFECTS

Wandsworth's programme of housing refurbishment is likely to be cut by 50%. The lower incentives to sell will slow the progress towards a leavening proportion of owner-occupation on Inner City estates. The combination of low owner-occupation and delayed refurbishment will maintain, if not exacerbate, present levels of vandalism and crime. Inner London will also inherit the consequences of ILEA's failure to reduce its surplus school capacity and to use the proceeds to refurbish the buildings needed for the future; but the boroughs will be hampered by the proposed restrictions, at the very time that Government and the public expect these inherited problems to be tackled with fresh vigour.

REMEDY

Inner City authorities (designated under the Inner Urban Areas Act) should be allowed to use substantially higher proportions of capital receipts, particularly housing receipts, because of their demonstrably greater needs in relation to their sale proceeds. At least for these authorities, the weighting attached to sale proceeds available should be kept to the minimum, when deciding the amount of credit approval.

Penalty for 1989/90 housing sales

PROBLEM

DoE proposes to change the housing subsidy arrangements for 1989/90 so that the loss of rent from dwellings sold will be ignored, while the reduction in net borrowing and in management and maintenance costs will continue to be reflected in reduced subsidy.

EFFECTS

Wandsworth stands to lose about £1 million in subsidy, compared with the previous arrangements. Moreover, each dwelling sold in 1989/90 will cause a net annual loss of £200 per annum, compared with a modest gain of £700 per annum formerly. Sales which actually increase rates and future community charges will be difficult to defend.

REMEDY

Subsidy arrangements should continue the present logical and reasonable practice of recognising the rent loss as well as the gross gains from sales.

No revenue benefit from housing sales from April 1990?

PROBLEM

Although Ministers have not yet announced proposals for the treatment of interest derived from housing sales, there appears to be no commitment to providing any revenue incentive for authorities to maintain or develop vigorous sales programmes. The concept of the ring-fenced Housing Revenue Account appears to be leading the DoE to view virtually all of the net benefit as due to the Exchequer.

EFFECTS

The lack of sales incentives in revenue terms would leave authorities like Wandsworth, actively selling empty flats and promoting the right to buy, very exposed to criticism. While the merits of diversifying tenure may be recognised, the drawbacks for the housing waiting-list and homeless families will attract more attention.

REMEDY

There should be a clear Ministerial commitment to maintain a worthwhile incentive in revenue terms for housing sales.

Penalty for all pre-April 1990 housing sales

PROBLEM

DoE proposes to reduce housing subsidy from April 1990 by a sum based on recent surpluses on the Housing Revenue Account, and to stop the transfer of any part of such surpluses to the authority's General Fund until subsidy entitlements are extinguished.

EFFECTS

The annual revenue benefit which Wandsworth has built up, by its active sales programmes in recent years, is the major part of the current surplus on the Housing Revenue Account. The proposal would therefore deprive the Council's General Fund of this benefit, for which ratepayers have borne the costs of staffing, publicity and legal fees in past years. Moreover, if it is accepted that there will be some benefit to the General Fund from future Housing sales (see previous point), then Wandsworth will be left at a severe disadvantage, from having led the way and therefore having comparatively far less future sales potential than all other housing authorities.

REMEDY

The proposed reduction in housing subsidy should be modified by an allowance for the effect of past sales, which should be a prescribed transfer from the Housing Revenue Account to the General Fund.

H J S HEYWOOD
Director of Finance and
Deputy Chief Executive
Wandsworth

1/HJSH/bma
20.2.89

PAUL GRAY

22 February 1989

cc: John Whittingdale

LOCAL GOVERNMENT AND HOUSING BILL: WANDSWORTH

I understand that the Prime Minister is about to receive a difficult letter on this subject from Paul Beresford, the Leader of Wandsworth Borough Council, on the political implications for Government policy on council house sales and the inner cities of the new regime for local authority capital receipts in the Bill. This is just to register the Policy Unit's interest in this subject and I would be grateful if you would pass us a copy of the letter when received. The same goes please for the advice you commission from Departments, before it is put to the Prime Minister.



JOHN MILLS



IT8.7/2-1993

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