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Local Govt

Ref. A03572

PRIME MINISTER

Local Authority Housing Capital Overspend 1980-81 (England)

(E(80) 130)

mf

BACKGROUND

The Secretary of State for the Environment proposes that he should now lift the moratorium on the letting of new contracts for capital expenditure on housing in 1980-81 from those authorities which are under-spending but maintain it on those which are over-spending. If approved this would probably lead to a breach of the overall cash limit on local authority capital expenditure on housing and for that reason the Chief Secretary is opposed to the proposal.

2. 250 authorities have so far committed expenditure of £133 million less than their permitted level. 117 are already committed to expenditure of £78 million in excess of their permitted total. If the 250 all spent up to their committed level the cash limit would be overspent by £134 million - that is, the £78 million plus £56 million which represents the tolerance for the carrying forward of underspending from 1979-80. The cash limit does not provide for this £56 million because the Department of the Environment, with Treasury agreement, judged that in practice it would be offset by underspending in 1980-81.

3. In practice it is unlikely that the overspend would be as much as £134 million. Not all underspenders would commit to their full amount. The incidence of payments to contractors would probably be such that some payments would be deferred until 1981-82. The Secretary of State for the Environment will give his latest assessment of the risk at the meeting. He accepts however that the probability is that there will be some overspend.

4. The objections to the moratorium are summarised in paragraph 5 of E(80) 130. It is unfair to the underspenders, and greatly resented as such. It hits the construction industry.



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5. Treasury Ministers' counter-arguments are in paragraph 8. The moratorium was imposed to prevent an overspend on the cash limit. It should not be taken off until it is clear that resumption of work would not put the cash limit at risk. It is true that this is unfair to underspenders, but that is in the nature of this particular cash limit. If some individual authorities overspend others have to pay the penalty for them.

6. The Secretary of State for the Environment is very anxious for a quick decision on this issue. He is under heavy pressure in the House and elsewhere to clarify the position and he wants to make a statement as soon as possible in the new session. For that reason he was unwilling to wait for discussion at a later meeting of the Committee.

HANDLING

7. You might open the discussion by pointing out that the meeting has to finish at 3.15 pm. It had been intended to give the whole of this time to discussion of the paper on Industrial Training. You would therefore like to despatch this item as quickly as possible. You might then invite the Secretary of State for the Environment and the Chief Secretary, Treasury, briefly to state their positions.

8. You can base the discussion on the Secretary of State for the Environment's proposals in his paragraph 6 and the Treasury arguments in paragraph 8. The Committee has to judge which is the more important - to risk a breach of this cash limit or to continue with the moratorium notwithstanding the great unfairness to the underspending local authorities, the effect on the construction industry, and the certainty of an increase in the already fierce criticism of the moratorium from Members on both sides of the House.

9. Either way the Secretary of State will need to make an early announcement of the Government's decision. In view of the row over the Written Answer on council house rents it will probably have to be an oral statement; and the decision on the timing will turn in part on that of other statements which Ministers will be making early in the new session. The Secretary of State will have to consult the Chancellor of the Duchy on this.



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CONCLUSIONS

10. In the light of the discussion you will wish to record conclusions:-
1. Either endorsing the Secretary of State for the Environment's recommendations in paragraph 6 of E(80) 130; or agreeing that the moratorium should continue until it is clear that resumption of work would not put the cash limit at risk.
 2. In the light of 1., inviting the Secretary of State for the Environment to consult the Chancellor of the Duchy of Lancaster on the form and timing of his statement announcing the decision.

RA

(Robert Armstrong)

17th November, 1980

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