

PRIME MINISTER

Mr. Heseltine's Statement on Housing Overspend

As you know, Mr. Heseltine will be setting out his decision on the housing overspend in his speech tomorrow. A dispute has arisen between him and the Treasury on the question of what happens if there turns out to be an underspend on the total cash limit. The present draft (see flag A, last paragraph) says that any amount underspent will be added to next year's cash limit. The Treasury don't mind if individual local authorities are compensated for underspending this year; but they are not prepared to agree this formula for the cash limit as a whole. In effect, this would mean that if enough authorities were to underspend, it would not be possible for the Department of the Environment to increase their allocation next year - because the cash limit as a whole would be underspent. The Treasury formula would only "work" if the underspenders are more or less matched by the overspenders.

And more
Mr. Heseltine believes he made his position clear at E Committee last week, and that Treasury Ministers did not dissent. That was also our impression. However, the minutes of the meeting do not really support Mr. Heseltine (see flag B): the summing up merely refers to overspending and underspending by individual authorities; and the record of what he said himself does not bring out the total cash limit underspending/overspending proposition clearly.

Mr. Heseltine says that it will be very difficult for him and Mr. Stanley politically if his proposed formula is turned down: they are apparently having a lot of difficulty with the Conservative-led councils already. On the other hand, the Treasury do not normally allow underspending in one year to be compensated by extra money in the next - though an exception was made for the Department of the Environment last year, and there

is also a 5% tolerance for the MOD. I have spoken to the Chancellor about this personally, and he is strongly opposed to the concession Mr. Heseltine is seeking.

This is not an easy one. My inclination would be to accept Mr. Heseltine's formula on political grounds, and because I doubt whether there will be much of an underspend. Mr. Heseltine will want to appeal to you in person if you are inclined to back the Chancellor.

My recollection is that ^{the}
Cabinet's intention was wholly with
S7 for Environment
not

24 November, 1980.