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11 December 1980

PRIME MINISTER

## LOCAL AUTHORITY HOUSING: CAPITAL OVERSPEND 1980-81

On 18 November E Committee agreed that the moratorium on new contracts for capital expenditure on housing by local authorities in England in 1980-81 should continue for the time being. The Committee invited me, however, to circulate a further assessment of the situation in time for discussion in the week beginning 15 December.

Accordingly I have been seeking the latest figures from the local authorities.

As you know it has now been agreed that I should make an oral statement on housing on Monday, 15 December when I will be expected to give some further indication of the Government's intentions about the moratorium. I am writing to you and my colleagues, therefore, to see whether we can reach agreement urgently on our future course of action.

On the basis of returns from more than 90% of local authorities, total housing authority commitments are thought to be £7 million above the cash limit of £2,186 million, ie the same as the November estimate. We shall not make a final estimate, however, until we receive the missing returns.

If we decide to continue the moratorium unabated that will undoubtedly provoke a hostile reaction from the local authorities, particularly those who are underspending, and from the construction industry. There has been much feeling about our refusal to permit local authorities to spend, in addition to the cash limit, the "tolerance" of £55 million for the carrying forward of underspent allocations from 1979-80. The estimates of committed expenditure are themselves liable to error depending on weather conditions this winter, and I very much doubt whether an overspend of £7 million would materialise. I believe therefore that it would be right to make at least a small relaxation from a continuing moratorium to enable the underspending authorities to resume the approval of discretionary improvement grants in the private sector. Their cessation has attracted the

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greatest criticism from the public and has been causing more concern in the Parliamentary party than any other aspect of the moratorium. I estimate that additional expenditure this year on this account would be unlikely to amount to more than £7 million at most.

A cessation on these lines would help to relieve the pressure on the many local authorities who have managed their affairs responsibly within their allocations; and it would in effect do no more than bring forward expenditure which those authorities will be able to undertake in the second quarter of next year through the additions to their allocations which we have agreed to make.

I hope, therefore, that you and my colleagues will agree that when I announce the continuation of the moratorium on Monday that I should also announce underspending authorities should be free to approve discretionary grants and loans for improvement for private sector dwellings.

You will appreciate that not only does this enable private sector work to proceed but that every improvement grant approved attracts an additional sum of privately contributed finance which is of further help to the construction industry.

I am copying this letter to member of E Committee, to the Secretaries of State for Scotland and for Wales, to the Chancellor of the Duchy of Lancaster, the Paymaster General and the Chief Whip, and to Sir Robert Armstrong. It would clearly help with my problems in drafting the statement if I could have a reply by close of play tomorrow, 12 December, from colleagues so that you may consider over the weekend.

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