

P.0584

PRIME MINISTERPublic Expenditure: Housing, and Other
Department of Environment Expenditure

Play A
Play B

You will probably wish first to discuss housing on the basis of the factual note attached to the letter of 16 November from the Chief Secretary's Office, and then the Annex on other environmental services attached to the Home Secretary's draft report. The Secretaries of State for Scotland and for Wales both have some interest in the second item and you may like to invite them to stay on for it if they so wish.

Housing

2. The Secretary of State for the Environment may well be reluctant to discuss housing on the grounds that this is an issue already before the Cabinet as a whole, on which many Ministers not present at this small meeting may have views. However the same applies to most other important expenditure issues. It is the Cabinet's clear wish that all the outstanding expenditure issues should be resolved as far as possible before the overall position is reported back to them.
3. When Cabinet discussed the Rate Support Grant settlement, and related housing questions, on 12 November they:

i. commissioned further work on the RSG on the assumption, inter alia, of council house rent increases averaging £2.50 a week;

ii. asked the Secretary of State for the Environment to consider urgently with the Chief Secretary the treatment of surpluses on housing revenue accounts;

iii. agreed that the public expenditure for housing capital and maintenance should be considered further in the light of the final decision on rents and in the context of their further discussion of the 1981 Public Expenditure Survey (CC(81)36th Conclusions, item 5).

Further work on the RSG is in progress and this should be ready for discussion next week. The Secretary of State and the Chief Secretary are discussing the treatment of surpluses and it should not be necessary for your meeting to go into this. The remaining issue is the expenditure provision for housing capital and maintenance.

4. The present total for housing in 1982-83 is £3869 million. If that total were to stand, and if the 1981-82 volume of housing capital and maintenance expenditure were to be maintained, council house rents would have had to increase by about £4 a week. The decision that the rent increase should average £2.50 leads the Chief Secretary to argue that capital must be reduced by £225 million and the additional bid of £67 million for maintenance refused; hence the total of £292 million in line 8 of the table circulated for your meeting. The Chief Secretary's further proposal that the existing total should be reduced by £93 million increases the gap to £385 million.

5. The Secretary of State for the Environment will argue for his additional £292 million, and no cut, on the grounds that:

- i. housing capital has already been slashed (by 45 per cent between 1979-80 and 1981-82) at a time when total households are growing at a net rate of 150,000 a year;
- ii. housing capital expenditure provides relatively more jobs than many other kinds of expenditure;
- iii. cuts will jeopardise the Government's low cost home ownership and home improvement policies;
- iv. it would be realistic, in the light of outturn in 1981-82, to assume that local authorities will want to spend more on management and maintenance.



6. The Chief Secretary, Treasury is likely to respond on the following lines:

i. he had not wished to advocate capital cuts but this is a necessary consequence of the decision to subsidise current expenditure through low rent increases;

ii. he would not accept that jobs in housing construction can be provided at exceptionally low public expenditure cost;

iii. private sector housebuilding starts are, according to the latest figures, 10-15 per cent up on a year ago, although completions are still falling;

iv. local authorities can spend the proceeds from council house sales on more new investment; the more successful they are in house sales the more able they should be to maintain or even improve the volume of new capital spending.

7. It is unlikely that this matter can be settled outside Cabinet on the basis either of the Chief Secretary's proposed cut of £93 million or the Secretary of State for the Environment's proposed addition of £292 million. In view of the overall public expenditure position you will want to try and close the gap of £385 million at the lowest acceptable level.

8. In the light of the discussion you will wish either to agree on figures for recommendation to Cabinet or to agree on a narrower range of options to be put to Cabinet or, at worse, accept that Cabinet will have to decide on the present range. For Scotland and Wales your aim will be to agree that they should take the formula consequential of the decision on England.

9. Although housing was not discussed by MISC 62 you may wish to consider whether, as a matter of convenience, the Home Secretary might report on the position reached in his memorandum to the Cabinet on public expenditure. If the figures are agreed at your meeting a paragraph in the main report should suffice. If not, an annex explaining the issues will be necessary and the Cabinet Office could draft it.

Other Environmental Services

10. There is nothing of substance to add to Annex B(iv) attached to the Home Secretary's report. MISC 62 acknowledged that capital cuts on water and local authority environmental services were not desirable but concluded that they could, and should, be made as a necessary contribution to the overall expenditure target.

11. All the other Ministers concerned have agreed to the local authority capital programmes for which they are responsible. It ought to be in the Secretary of State for the Environment's interests to do likewise and quickly: until this is agreed he cannot make the final calculation of the interest charges on capital expenditure which feed into the RSG arithmetic.

12. Your aim in this part of the discussion will be to press the Secretary of State very hard to agree to accept the cuts. If necessary the Secretary of State's reservations about these cuts, and the fact that he accepted them only with great reluctance, could be recorded in the Home Secretary's report to the Cabinet.

Property Services Agency

13. As the draft report makes clear, agreement has been reached on the reduction of £20 million a year in planned expenditure by the PSA. Other Ministers will, however, have to accept that this could have repercussions for their own building plans and programmes. This should not require further discussion at your meeting.

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17 November 1981

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