PRIME MINISTER

Parliamentary Affairs

There are one or two points of difficulty on current legislation, but none seems likely to need an airing at Cabinet this morning.

Mr Pym may possibly want to raise the issue of Mr Heseltine's transfer of GLC Housing Order. I attach the speaking and background notes offered by Mr Heseltine for Mr Pym's use during the Business Statement tomorrow. Mr Pym is reportedly very uneasy about this. But the Government has little option other than to press ahead on these lines, effectively challenging the Opposition to attempt some form of censure. The alternative of withdrawing the Order no longer seems a realistic option. If the Opposition were to table the traditional form of censure motion on an individual Minister, moving a reduction in his salary, it would be taken in their own time - perhaps on the Supply Day tentatively planned for next Thursday. But Mr Foot did speak of the honour and integrity of a Minister, which might lead them to tackle it in a different way.

MAP

3 June, 1981

TRANSFER OF GLC HOUSING
SPEAKING NOTE

I have considered this matter again since the Rt Hon Gentleman (the leader of the Opposition) raised it a fortnight ago. The Government will not withdraw the Order. The Order was made after wide-ranging and intensive consultation in which the arguments about the principle and the terms were fully aired, and the transfers are now Government policy.

In this House on 31 March, my Rt Hon Friend the Secretary of State for the Environment was answering a specific allegation from the Hon Member for Hackney South and Shoreditch, that Sir Horace Cutler had asked my Rt Hon Friend not to transfer the properties. That was an untrue allegation, as Sir Horace has since confirmed. At no stage did Sir Horace ask for the order to be withdrawn. That is the context in which the answer given by my Rt Hon Friend to the Hon Member for Hackney South has to be seen.

The Government would have been prepared to find time to debate the issues raised by compulsory transfer; but the Rt Hon Gentleman the leader of the Opposition has now withdrawn his prayer. It is time for the authorities concerned to accept that the Government has now given effect to a policy recommended by the Royal Commission on Local Government in London 20 years ago, and to concentrate on achieving a smooth and efficient transfer 10 months hence.

TRANSFER OF GLC HOUSING
BACKGROUND NOTE

The Order in question (SI 1981/536) compulsorily transfers about 54,000 houses from the GLC to 8 Labour-controlled London Boroughs on 1 April 1982. It was made at the request of the GLC (received in May 1980), after they had reached agreement with all the other Boroughs (including 6 Labour) on the transfer of almost all their other c 150,000 houses. As required by statute, the Department consulted the 8 Boroughs over a period of 9 months; the Order was made on 2 April 1981. The Boroughs were unsuccessful in 2 High Court actions, challenging the validity of the GLC's request and the adequacy of the Department's consultation.

The Opposition are now seeking to argue that the Secretary of State for the Environment is committed to withdrawing the Order as a result of remarks made in the House in the question and answer period following his announcement of intention to make the Order on 31 March 1981 (Hansard, 31 March,Col 157). However the Opposition's case is based entirely on a quotation taken out of context. Ronald Brown MP made a specific allegation: "since Sir Horace has found out those costs he has asked the Secretary of State not to transfer the properties. The Secretary of State had that letter in February. He knows that is the case. He is misleading the House."
The Secretary of State's response was directed entirely to this statement: it was not the case that Sir Horace had asked for the Order to be withdrawn; and the letter in February - which was sent at official level - did not ask for withdrawal, but for various amendments. The furthest the letter went was to say "unless the 2 amendments requested are included, the Order as at present drafted does not place the Council in a financial position to accept the terms."

As Sir Horace Cutler has since confirmed (his letter of 22 May) this letter was part of the negotiating process; and the Order as presented was amended to meet partially the GLC's comments.

There is thus no question of any commitment by the Secretary of

State to withdraw the Order. The Opposition are making political capital, but on very thin grounds. The 8 Boroughs are currently supporting the GLC in its opposition to transfer, as are the London Labour MPs. However, whereas the GLC's opposition (from a wish to provide a base for reviving a major housing development programme) is likely to continue, the Boroughs can see the benefits of local management and are aware that the imposed terms are fair. But they cannot say this publicly!

The prayer against the Order has now been withdrawn, and the 40-day period expires on 7 June. However, during questions on the Business Statement on 21 May, Mr Foot threatened to take further steps (unspecified). It now seems, therefore, that they may have given up the fight on the substantive issue of the transfers themselves.

DOE
3 June 1981

Housing

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: PA

Your ref: MS

31 March 1981

Dear Nick

I attach a copy of the final version of my Secretary of State's statement to be made this afternoon on the transfer of GLC housing. I am sending a copy of this to Nick Sanders, No 10, the Chief Press Secretary, No 10, and 6 copies to Murdo MacClean, Chief Whip's Office.

Yours ever

Dick

D A EDMONDS
Private Secretary

Nick Huxtable Esq
PS/Leader of the House of Commons

STATEMENT - 31 MARCH 1981

TRANSFER OF GLC HOUSING

Mr Michael Heseltine

With permission, Mr Speaker, I shall make a statement about the transfer of GLC housing to certain London Boroughs.

In May 1980 the Greater London Council requested me to make an Order under Section 23(3) of the London Government Act 1963 transferring the Council's housing stock in the London Boroughs of Brent, Camden, Hackney, Haringey, Hounslow, Lambeth, Lewisham and Waltham Forest to the Borough Councils. These Boroughs were unwilling to accept the transfer of the stock. In these circumstances the Act required me to consult the Boroughs before reaching a decision.

There have been intensive consultations. I am now satisfied that it is right for the housing to be managed at Borough level. I also believe that terms can be determined which will not only enable the stock to be assimilated smoothly but will also lead to more effective housing management in London. My Department is today conveying this decision to the Borough Councils.

I shall be making an Order transferring the stock to the Borough Councils on 1 April 1982, and intend to lay it before Parliament in the near future. A copy of the decision letter has been placed in the Library together with a draft of the proposed Order. The Order will take into account the Boroughs' views on the GLC's proposals, and in particular will impose an obligation on the GLC to bring the property up to an acceptable standard over 10 years.

The needs for housing mobility in London have changed considerably. The GLC's own mobility scheme for the transferred stock, together with the Inter-Borough Nomination Scheme, which is now to be part of the National Mobility Scheme, provides an adequate framework for meeting these needs, without the necessity to retain the GLC as a housing management authority. These transfers, together with those taking place by agreement, will largely fulfil the recommendations of the Herbert Commission in 1960 that, to the fullest possible extent, Council housing in London should be owned and managed locally by the Borough Councils.

RESTRICTED

cc Press
Mr Howe
Mr Gow

Housing

1.

2 MARSHAM STREET
LONDON SW1P 3EB

✓MS

Prime Minister
More controversial business on Housing. Content for Mr Heseltine to make the attached oral statement, probably on Wednesday?
Yes MT
27/3

My ref:

Your ref:

27th March 1981

Dear Chancellor of the Duchy of Lancaster,

TRANSFER OF GLC HOUSING

I am sorry to come to you at short notice about the possibility of an oral statement. The reasons for, and background to, a statement are set out below; the reason for the short notice is that we have been engaged in a difficult and controversial negotiation which has only come to fruition in the last day or so.

As you know, it is this Government's policy, and that of the present Greater London Council, effectively to remove the GLC's function as a housing authority. Our aim has been to achieve this objective within the lifetime of the present Council: ie before the GLC elections on 7 May. Considerable progress has been made. Orders have already been made or agreed (under Section 23 of the London Government Act 1963) transferring some 163,000 dwellings - about three-quarters of the GLC's former stock - from the GLC to 49 London Boroughs and District Councils. There have been two transfers by agreement since the election. No special announcements were made to the House of Commons.

Most of the rump of the stock consists of some 54,000 dwellings in 8 Labour-controlled Boroughs (Brent, Camden, Hackney, Haringey, Hounslow, Lambeth, Lewisham, and Waltham Forest) which have been resisting transfers. At the request of the GLC, I have been considering whether to transfer the property compulsorily to these Boroughs by negative resolution order under the 1963 Act. This is the first time that there will have been a compulsory transfer.

However, as a result of the negotiations - officials here have discussed in detail with the Boroughs, I have discussed with Horace Cutler, and Geoffrey Finsberg has discussed with George Tremlett - we are reasonably confident that the terms contained in the order I would lay are sufficiently generous to persuade the Boroughs to acquiesce without litigation - which is an option open to them. The order would be made now - ie before the GLC election - and would be effective on 1 April 1982.

Nevertheless we still need a compulsory order. There is no prospect of an agreed order. The order needs to be made on or about 2 April, and laid before Parliament on or about 9 April. If there was then a prayer against the order, and if you were able to find time, there could therefore be a debate before the Easter Recess.

It is my judgement that the order will be contentious, although the subject is of interest only to part of London, in that the Opposition will seek to make political capital; and although the Boroughs may be satisfied with the terms, they will not make our path easier. It is for this reason that I believe I should make an oral statement not later than Wednesday, 1 April, when I next have First Order Questions. Otherwise we could face another contrived Opposition row over procedure.

I hope that you can live with an oral statement on this timetable.

I am copying this to the Prime Minister, and to Michael Jopling.

Yours sincerely

DH Hills

for MICHAEL HESELTINE
(approved by the Secretary of State and signed in his absence)

STATEMENT

Proposed Transfer of GLC Housing

Following the intensive consultation which has taken place on the draft Order which was circulated by my Department on 9 February, I am satisfied that terms have now been achieved which will not only enable the stock to be assimilated smoothly but also lead to more effective housing management in London. I shall therefore shortly be making an Order transferring the stock to the Borough Councils on 1 April 1982, and intend to lay it before Parliament in the near future. My Department has conveyed this decision to the Councils. The Order takes into account their views on the Greater London Council's proposals, and in particular will impose an obligation on the GLC to bring the property up to an acceptable standard over 10 years.

The needs for housing mobility in London have changed considerably since Professor Cullingworth reported in 1970, and the GLC's own mobility scheme for the transferred stock together with the Inter-Borough Nomination Scheme now provides an adqeuate framework for meeting these needs, without the necessity to retain the GLC as a housing management authority. These transfers, together with those taking place by agreement, will largely fulfil the recommendations of the Herbert Commission in 1960 that, to the fullest possible extent, council housing in London should be owned and managed locally by the Borough Councils.

From **SIR HORACE CUTLER, O.B.E.**
LEADER OF THE GREATER LONDON COUNCIL
THE COUNTY HALL, SE1 7PB
Telephone 01-633 3304/2184

Housing
PRS
R4

2 February 1981.

Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, S.W.1.

Dear Margaret,

HOME LOANS AND HOMESTEADING

Thank you for your very full letter of 23 January.

George Tremlett tells me that in point of fact we can get by with our present allocations, including the supplements and adjustments given recently.

I like the suggestion of an early re-start of the home-loans scheme and will see what can be arranged.

Ever yours
Horace.

cc. PSO
HMT
DOE
(Housing)

10 DOWNING STREET

THE PRIME MINISTER

23 January, 1981.

Dear Horace,

In your letter to me of 7 August, you explained that you had been obliged to reduce the GLC budget for mortgage lending by some 60 per cent this year and asked that you might use your substantial capital receipts to increase your lending. We then met on 20 October. I am sorry that it has taken some time to reply, but we have been giving a good deal of thought to the problem and to the related question of maintaining the momentum of your homesteading scheme on which there has been parallel correspondence between John Stanley and George Tremlett.

We have not however been able to find a way of agreeing that the GLC and similarly placed authorities may use their housing capital receipts to increase their capital expenditure this year. The fundamental difficulty is that an estimate of these receipts was taken into account nationally in fixing the sum available for Housing Investment Programmes(HIPs) - if we had not done so, the amount for distribution as HIPs would have had to have been correspondingly reduced. The indications are that the national total of receipts this year will be about the figure estimated in our public expenditure planning. If therefore authorities were to be allowed to increase their spending by using their capital receipts, we should at the national level in effect be taking credit for them twice over and in addition we should be making a breach of the HIP cash limit still more likely. I think you will understand why the Government cannot contemplate that, when local authorities are already estimating that their existing commitments this year will be in excess of the HIP cash limit which of course is why we have had to continue the general moratorium on HIP expenditure.

/ I am of course

I am of course anxious that you should, despite the moratorium, be able to maintain the momentum of your mortgage lending and homesteading programmes, at least by getting into a position to make payments from the very beginning of the new financial year. Michael Heseltine in his statement on 15 December said that, though the moratorium must remain in force for the time being, authorities were free to make new commitments before the end of this year so long as there would be no additional expenditure until after 1 April. I hope therefore that you will be able immediately to restart the processing of homesteading and mortgage applications - and perhaps be able through publicity to stimulate further applications - with a view to expenditure from 1 April.

In addition, it will be possible to give a limited amount of help before 1 April. On 3 December, Michael Heseltine announced that a special allocation of £3 million was being made available to encourage pilot improvement for sale schemes. We have now decided that these resources may also be used for homesteading schemes. I cannot yet say exactly how much can be allocated to the GLC as John Stanley is still settling the final details, but this will make it possible for you to deal with at least some of your outstanding homesteading applications very soon.

Yours ever,

(SGD) MT

Sir Horace Cutler, O.B.E.

10 DOWNING STREET

Prime Minister

DoE and Treasury have at last agreed to give GLC a little leeway on homesteading.

You can now write to Horace Cutler.

MT
22/1

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 7601

MINISTER FOR HOUSING AND CONSTRUCTION

22 January 1981

Mike Pattison Esq
Private Secretary
10 Downing Street
London SW1

Type for PM, please

MAP 22/1

Dear Mike,

We spoke yesterday about the outstanding correspondence with Sir Horace Cutler which I wrote to you about on 12 January.

Our discussions with the Treasury have now been satisfactorily completed which means that there is a small piece of good news for the GLC. I attach a draft letter, which has been agreed with the Treasury, with the new concession described at the end.

I am copying this to Terry Matthews in the Chief Secretary's Office.

Yours sincerely,

Robin Young

R U YOUNG
Private Secretary

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO SIR HORACE CUTLER

In your letter to me of 7 August, you explained that you had been obliged to reduce the GLC budget for mortgage lending by some 60% this year and asked that you might use your substantial capital receipts to increase your lending. We then met on 20 October. I am sorry that it has taken some time to reply, but we have been giving a good deal of thought to the problem and to the related question of maintaining the momentum of your homesteading scheme on which there has been parallel correspondence between John Stanley and George Tremlett.

We have not however been able to find a way of agreeing that the GLC and similarly placed authorities may use their housing capital receipts to increase their capital expenditure this year. The fundamental difficulty is that an estimate of these receipts was taken into account nationally in fixing the sum available for Housing Investment Programmes (HIPs) - if we had not done so, the amount for distribution as HIPs would have had to have been correspondingly reduced. The indications are that the national total of receipts this year will be about the figure estimated in our public expenditure planning. If therefore authorities were to be allowed to increase their spending by using their capital receipts, we should at the national level in effect be taking credit for them twice over and in addition we should be making a breach of the HIP cash limit still more likely. I think you will understand why the Government cannot contemplate that, when local authorities are already estimating that their existing commitments this year will be in excess of the HIP cash limit which of course is why we have had to continue the general moratorium on HIP expenditure.

I am of course anxious that you should, despite the moratorium, be able to maintain the momentum of your mortgage lending and homesteading programmes, at least by getting into a position to make payments from the very beginning of the new financial year. Michael Heseltine in his statement on 15 December said that, though the moratorium must remain in force for the time being, authorities were free to make new commitments before the end of this year so long as there would be no additional expenditure until after 1 April. I hope therefore that you will be able immediately to restart the processing of homesteading and mortgage applications - and perhaps be able through publicity to stimulate further applications - with a view to expenditure from 1 April.

In addition, it will be possible to give a limited amount of help before 1 April. On 3 December, Michael Heseltine announced that a special allocation of £3M was being made available to encourage pilot improvement for sale schemes. We have now decided that these resources may also be used for homesteading schemes. I cannot yet say exactly how much can be allocated to the GLC as John Stanley is still settling the final details, but this will make it possible for you to deal with at least some of your outstanding homesteading applications very soon.

Housing

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 7601

MINISTER FOR HOUSING AND CONSTRUCTION

12 January 1981

Mike Pattison Esq
Private Secretary
No 10
Downing Street
London
SW1 OAA

I spoke to Mr Young
leave until 19/1
MAP

Dear Mike,

You will recall the correspondence following the Prime Minister's meeting with Sir Horace Cutler on 20 October. You last wrote to me on 10 December asking me for a draft letter to Sir Horace.

Your people have justifiably been pressing us for that and I am writing to let you know the state of play. We have got a draft which has been agreed with the Chief Secretary, but which would give Sir Horace very little comfort indeed. We have, however, just put a further proposal to the Treasury which if agreed would result in the GLC's being able to spend a small amount more on homesteading in 1980-81. This would obviously be welcome to Sir Horace and could be included in the Prime Minister's letter to him. Unless, therefore, you would prefer to have the agreed draft now anyway, Mr Stanley would like to await Treasury's response to this latest suggestion, and if it is favourable to forward you an improved draft reply to Sir Horace. We have asked the Treasury for a quick reply, and so I ought to be in a position to send you something next Monday, 19 January.

I hope this is acceptable to you. I am copying this to Terry Matthews inthe Chief Secretary's office.

Yours sincerely,

Robin Young.

R U YOUNG
Private Secretary

Re VB
Housing

10 DOWNING STREET

From the Private Secretary

10 December 1980

PT 22.12.80

The Prime Minister has seen Mr Stanley's letter of 8 December, about GLC home loans.

She owes Sir Horace Cutler a letter, and would be grateful if Mr. Stanley could suggest a draft, in consultation with the Chief Secretary.

I am sending a copy of this letter to Terry Mathews (Chief Secretary's Office).

M. A. PATTISON

R.U. Young, Esq.,
Department of the Environment.

RH

1.

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 7601

My Ref: ST/PSO/45600/80

MINISTER FOR HOUSING AND CONSTRUCTION

8 December 1980

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1

Prime Minister
Do you now want Mr Stanley to give you a draft letter to send to Horace ~~Cuttlo~~ Cutler?
MP 9/XII

Yes please

Dear Prime Minister.

GLC HOME LOANS

When John Biffen and I saw you on 20 October we agreed to consider what might be done, without incurring any expenditure until the start of the 1981/82 financial year, to help the GLC to continue to process applications for homesteading during the current year. Shortly after that meeting we had as you know, in order to prevent a breach of the cash limit, to require all local authorities not to undertake any new housing commitments, except to meet statutory requirements.

We shall be circulating to local authorities very shortly the details of the new capital receipts rules that apply from 1 April 1981, and we are intending to make housing capital allocations to local authorities on 15 December. The GLC will then know what housing and other capital expenditure they can undertake and how it can be augmented by capital receipts from 1 April. They should then be able to complete all necessary preliminaries in the processing of homesteading applications - and perhaps stimulate further applications by means of publicity - with a view to expenditure being undertaken as from 1 April 1981.

I am copying this letter to John Biffen with whom it has been agreed.

Yours ever
John

JOHN STANLEY

CONFIDENTIAL

File

cc Min. Housing

10 DOWNING STREET

From the Private Secretary

20 October 1980

BF 29.10.80

As arranged earlier in the month, the Prime Minister today had a further discussion with the Chief Secretary, the Minister for Housing and Construction and Sir Horace Cutler, about the use of the GLC's accumulated capital resources. In the course of the discussion, the Prime Minister recognised that it was imperative to avoid any additional charge on the contingency reserve in the current financial year. Any arrangement which might enable the GLC to spend its accumulated funds would have to meet this criterion. It would, however, be possible to contemplate a scheme under which applications for homestead loans, to be financed from the resources in question, might be submitted early in 1981, although no expenditure would be incurred until the start of the 1981/82 year.

After further discussion, the Prime Minister asked your Minister and Mr. Stanley to consider urgently what might be done along these lines. It seemed possible that the necessary rule could be made under the homesteading clause in the Housing Bill, thus ensuring that the relaxation applied only to authorities currently operating homesteading schemes. In practice, this would mean only the GLC at present.

The Prime Minister would be grateful if your Minister and Mr. Stanley could report back to her when their further discussions are concluded.

M. A. PATTISON

Mr Stanley: Env.
F/1764

T.F. Matthews, Esq.,
H.M. Treasury.

CST.

CONFIDENTIAL

CONFIDENTIAL

HS

Housing
& Matter

10 DOWNING STREET

From the Private Secretary

3 October 1980

BF 17.10.80

The Prime Minister spoke to the Chief Secretary this afternoon about the suspension of the GLC's loan scheme.

The Prime Minister recognises the problems of public spending accounting which have caused the Chief Secretary to reject ideas along the lines proposed by Mr. Stanley in his letter of 12 September. She acknowledges that any greater spending by the GLC would have to be set against the Department of the Environment's cash limit. She is nevertheless concerned that an authority which apparently has no outstanding debt is unable to put its existing resources into worthwhile capital expenditure. She feels that the GLC's efficient economic management is bringing it no benefit whilst more profligate authorities manage to overspend on the basis of borrowings.

She would like to discuss this further, to see whether there is any way of meeting Sir Horace Cutler's problem. She proposes to invite the Chief Secretary and Mr. Stanley to a meeting with Sir Horace Cutler after the Party Conference. Caroline Stephens will be in touch with you about the timing.

(20.10.80 at 15.00).

M. A. PATTISON

Terry Matthews, Esq.,
Chief Secretary's Office.

CONFIDENTIAL

Housing 1

PRIME MINISTER

Horace Cutler raised with you, in the attached letter, the issue of the suspension of the GLC's Home Loan Scheme.

John Stanley (Flag A) and John Biffen (Flag B) have now looked at this. Both recognise that any exception to the existing ruling will have public expenditure implications this year. The position will of course change next year, but too late to be helpful from Sir Horace's point of view. Mr. Stanley has canvassed the idea of a special concession to the GLC, in effect to allow them to start operating on the new basis in say February or March. Mr. Biffen argues that this would really be incompatible with the tough line central government is now taking on local authority spending generally. He therefore advises you to reject Mr. Stanley's proposal.

If you accept Mr. Biffen's advice, do you want to speak to Sir Horace about this at the next opportunity, in preference to writing?

MAP

Would prefer to see J.B. myself

MT

Arranged for Friday 3rd October at 12.30

cl. 29/9.

24 September 1980

B

2ffs

PRIME MINISTER

SUSPENSION OF GLC HOME LOANS SCHEME

John Stanley sent me a copy of his recent letter to you about the suspension of the GLC's Home Loan Scheme. I have been considering the implications of his proposal that we might allow authorities to set capital receipts against the additional expenditure resulting from increased mortgage lending this year.

2. I can appreciate why it must seem unsatisfactory to the Council that our current controls appear to frustrate them from pursuing policies which they could finance by receipts, rather than fresh borrowing. This must be particularly so when we are to move next year to a different system of control which at first sight would seem to allow them to do what is proposed. However the situation is not as straightforward as this.

3. Under the present system, housing capital allocations to local authorities relate to gross expenditure. But the capital receipts do score against the Public Expenditure Survey programme for housing, and as a consequence the allocations the Department can issue within its PES total are correspondingly higher than they would be in the absence of this netting-off. Thus the receipts referred to by the GLC were effectively taken into account when the allocations to authorities were made originally. It is true that next year allocations will be made net of certain receipts, but of course this will be reflected in correspondingly lower figures than under the present arrangements.

4. It is inescapable that the proposal will increase public expenditure this year. It would also mean a higher PSBR than would otherwise be the case since the alternative use for the receipts is to reduce outstanding debt. It could also have cash limit implications. As John says, the sums involved are unclear but if the change is to have any impact presumably they would be significant. At a time when we are urging local authorities to restrain spending so that our policies for public expenditure are achieved, and more generally when the prospects for the PSBR are not favourable, it would be incongruous for us to be seen to be allowing individual authorities exemptions from the existing controls. With some regret therefore, I must advise you against accepting this proposal.

5. I am sending a copy of this minute to John Stanley.

WJB

JOHN BIFFEN
22 September 1980

A

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 7601

My Ref: ST/PSO/45600/80

MINISTER FOR HOUSING AND CONSTRUCTION

12 September 1980

PERSONAL AND CONFIDENTIAL

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1

Dear Prime Minister,

In your Private Secretary's letter of 8 August you asked for my comments on the attached extract from some personal correspondence from Horace Cutler.

Michael Heseltine and I saw George Tremlett earlier this year to discuss the suspension of the GLC's Home Loan Scheme. Michael subsequently wrote to George on 20 June as attached. The position remains as set out in Michael's letter, namely that we have not found any means within the existing PESC rules of enabling the GLC to utilize their capital receipts to resume their mortgage lending without an increase in public expenditure having to be made.

If it was felt desirable to make a limited increase in public expenditure in order to help authorities who are in the GLC's position a possible way to do this whilst limiting the impact on public expenditure would be as follows.

Authorities could be told that from say 1 January, they could use any unspent capital receipts for mortgage purposes only, using the same rules on the treatment of capital receipts for PESC purposes that we shall be applying from 1 April anyway. Effectively we should be advancing for a single limited purpose the capital receipt rules that we shall be operating from 1 April. This should certainly enable the GLC to restart their mortgage scheme early in the New Year. It is very difficult to assess the public expenditure effect of any such change. In the first 2 quarters of 1980, local authority mortgage lending to the private sector (i.e. excluding house purchases by council tenants) averaged around £40 million a quarter. Any increase in public expenditure in 1980-81, resulting from this change would arise where authorities had unspent capital receipts at 1 January and actually completed additional mortgage transactions before March 31st 1981. Clearly,

if the concession was announced still later, say 1st February or even 1st March, the likelihood of a material increase in public expenditure this year would be correspondingly reduced. However, the closer one got to the start date for the new capital receipt rules that have already been announced, i.e. 1 April 1981, the more difficult it would be to confine the concession to mortgage lending only as the new rules apply to any form of capital investment.

I have discussed this with John Biffen as you suggested and he may wish to write to you separately on the public expenditure aspects. I have sent him a copy of this letter.

Yours ever

John

JOHN STANLEY

2F

HOME LOANS - RE-CYCLED ASSETS

1. Our original home loans budget this year was £52 million, but we were obliged to cut it to £20 million to meet HIP. However, our income from repayment of principal is some £45 million, and this means that we could double our reduced budget and not have to borrow to fund it. PSBR would be unaffected.

   What is more we have made a surplus approaching £50 million from housing sales. The benefit of this income by law must go to the Housing Revenue Account by reducing outstanding debt.

   In terms of the simple equation, though, we are receiving far more than we could possibly lend, no matter how we are obliged to apply the receipts. In addition we will raise well over £100 million this year from re-cycling non-housing assets.

   The social and political benefits of re-opening our home loans scheme are very considerable. In the circumstances, and given that even the technical financial/economic arguments are on our side, I really feel that we are entitled to greater consideration.

D

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: PSO/13249

Your ref:

30 June 1980

Dear George

We met on 23 April to discuss your letters of 6 March and 15 April about the GLC's difficulties with its mortgage lending scheme. I said that I would look further into ways in which we might help, but I was not too hopeful of doing anything in the present year.

I am sorry that we have not been able tofind any answer to your problem. The fact is that resumption of mortgage lending inevitably increases public expenditure. The use of your capital receipts on council house sales, as suggested in your letter of 6 March, is not a solution, as receipts have already been taken into account nationally in making up the sums available for allocation through the HIP system. Next year, as you know, we are changing the system. In doing so we will enable those authorities which are vigorous sellers of council houses to gain greater benefits themselves from their capital receipts, while at the same time of course keeping public expenditure on housing under proper control.

Later this year, we will be able to consider requests from local authorities to anticipate their 1981/82 HIP allocations by a sum equivalent to 5% of this year's allocation. If we are able to accede to such requests, this might help you. However, in any event, we very much hope to be able to make the HIP allocations early enough this year to enable those local authorities which have had to curtail their mortgage lending schemes to decide whether to start them up again in preparation for lending in the coming financial year. Given the lead-times which are normal with house purchase, you may then wish to consider whether the scheme covered be re-opened some months ahead of this financial year. I cannot of course yet give you an indication of the size of your HIP allocation for next year, but with the run-down of your development programme you may perhaps have more room for manoeuvre than you had this year.

I would have like to have been able to help this year but with the best will in the world I do not see any way to do so at present. I am very glad, however, that we have been able to help you over homesteading.

Yours ever

Michael

MICHAEL HESELTINE

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NCB

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From the Private Secretary

8 August 1980

BF 29.8.80

I enclose an extract from a letter to the Prime Minister from Sir Horace Cutler.

The Prime Minister would be grateful for Mr. Stanley's comments on the points raised. He may need to consult the Chief Secretary on these points, and I am sending a copy of this letter and enclosure to Alistair Pirie in the Treasury.

I should be most grateful if you could ensure that the text of Sir Horace's letter is not circulated too widely. This is from some personal correspondence, and Sir Horace has in the past been most concerned to learn from officials that they have seen his letters to the Prime Minister.

M. A. PATTISON

R.U. Young, Esq.,
Department of the Environment.

X1764.

From SIR HORACE CUTLER, O.B.E.
LEADER OF THE GREATER LONDON COUNCIL
THE COUNTY HALL, SE1 7PB
Telephone 01-633 3304/2184

Prime Minister

1. I think Sir H Cutler's comments on ILEA are an accurate reading of the ~~[illegible]~~ likely outcome. Would you like Lady Young to suggest a reply?

Yes please MT

2. Would you like John Stanley's comments on the Home loans point?

Yes - but I think it will need to go to Treasury as well. It is ridiculous to stop CLC lending money they already have.

MTP 7/8

7 August 1980.

Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, S.W.1.

Top Copy
filed Education
Future of ILEA Pt 2

Dear Margaret,

1. HOME LOANS - RE-CYCLED ASSETS

2. ILEA - FUTURE

I undertook to let you have a note of these two matters.

See Education ILEA: Pt 2

1. Our original home loans budget this year was £52 million, but we were obliged to cut it to £20 million to meet HIP. However, our income from repayment of principal is some £45 million, and this means that we could double our reduced budget and not have to borrow to fund it. PSBR would be unaffected.

   What is more we have made a surplus approaching £50 million from housing sales. The benefit of this income by law must go to the Housing Revenue Account by reducing outstanding debt.

   In terms of the simple equation, though, we are receiving far more than we could possibly lend, no matter how we are obliged to apply the receipts. In addition we will raise well over £100 million this year from re-cycling non-housing assets.

   The social and political benefits of re-opening our home loans scheme are very considerable. In the circumstances, and given that even the technical financial/economic arguments are on our side, I really feel that we are entitled to greater consideration.

2. I have frequently made the point that if nothing was decided by mid-summer the issue would go by default. When I saw Janet Young at Banbury she said that her committee's findings would be ready before Recess and that she would meet me before releasing them. They aren't (apparently) and she hasn't!

   There are two points which concern me. The first is that we have been so comprehensively outmanoeuvred by the Socialists and the pressure groups and the D.E.S. that even some of our people have swallowed the preservation case. The other is that, whatever our policy is and whatever we would like to do we now have very little chance of success.

P.T.O.

MAP

2.

From **SIR HORACE CUTLER, O.B.E.**
LEADER OF THE GREATER LONDON COUNCIL
THE COUNTY HALL, SE1 7PB
Telephone 01-633 3304/2184

Prime Minister
MAP
5/8

RS/8

1 August, 1980

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
10, Downing Street
London, S.W.1

Dear Margaret,
HOMESTEADING

I understand that action has now been taken in the Lords to safeguard our scheme and we are all very grateful indeed for your help in this matter.

I look forward to seeing you on 6 August.

Yours ever
Horace.