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Housing

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

Prime Minister

Relevant, I fear, for Cabinet tomorrow, in view of X overleaf.

MCS 16/12

My ref:

Your ref:

16 December 1981

Dear Chief Secretary,

HOUSING SURPLUSES

Thank you for your letter of 16 December. (letter requested) In view of the need to announce the 1982-83 HIP allocations on Monday, I had hoped to be able to discuss this issue with you today. I understand that you are not able to arrange a meeting.

I am happy to deal with the 2 issues of housing capital receipts and housing surpluses in a single letter, but they are essentially separate and have been the subject of separate collective decisions.

First, the question of capital receipts was explicitly and clearly dealt with at Cabinet on 26 November. In her summing up, the Prime Minister said that 'the Cabinet agreed that the provision for housing capital investment should not be increased but that the local authorities should be told that they should assume that £250 million additional receipts would be forthcoming in 1982/83 to enable them to finance that amount of additional investment in the year'. My allocation will be made on precisely the basis agreed by Cabinet, with no increase in capital provision net of receipts (indeed there will be a significant further reduction over the 1981/82 level). As agreed by Cabinet I have increased my assumption about capital receipts accruing in 1982/83 compared with the assumption for 1981/82 and will be indicating to authorities that should there be any shortfall over that assumed level they can safely carry forward receipts unused in 1981/82 to cover the balance.

On the question of surpluses, the authorities where surpluses are forecast to arise are overwhelmingly Conservative and given both the willingness of those authorities to see rents rise and the financial benefits for them of doing so, whether by paying off housing debt or (as some may still choose to do) by transferring surpluses to the rate fund, I will do all I can - with the support of Ian McCullum our ADC leader - to persuade them to follow this course.

Obviously I cannot forecast what hundreds of authorities will do, but whatever they do the consequences will be trivial in comparison with the totality of the local authority capital cash block. This year's rate of generation of capital receipts has produced a substantial underspend. It could happen again next year and if the present level of capital receipts continues is at least as likely as your forecast on just one part of the block.

You will be aware that Nicholas Edwards earlier today announced a

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30% increase in housing capital for Wales. In these circumstances, it would be quite unthinkable for me to make any holdback in the provision for housing capital in England - which would effectively mean depressing not only the gross line but also the net line, which will already be 7% below the 1981/82 level in real terms.

X I understand that you are content, if the Prime Minister consented, for me to raise these matters orally at Cabinet tomorrow. However, this must be a matter for you as I consider that I have the clearest possible Cabinet authority for proceeding to make the 1982/83 HIP allocations on Monday on the basis I have set out in the draft statement attached. X

I am copying this letter to the Prime Minister and our Cabinet colleagues, the Chief Whip and Sir Robert Armstrong.

Yours sincerely

[signature]

for MICHAEL HESELTINE

(letter drafted by the Secy of State and signed in his absence)

Rt Hon Leon Brittan QC MP

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DRAFT STATEMENT BY SECRETARY OF STATE

Following discussions with the local authority associations in the Housing Consultative Council, I am now able to announce a number of decisions on housing public expenditure in 1982/83.

I am glad to say that, despite the reduction in overall housing expenditure in 1982/83 envisaged in last year's Public Expenditure White Paper, it will be possible to hold capital expenditure next year at approximately the same level as this - as foreshadowed in the statement by my right hon Friend the Chancellor of the Exchequer on 2 December.

This has been made possible largely by the growing volume of sales of local authority dwellings and land which we expect to see continue throughout next year as a result of the Government's policies on low-cost home ownership, particularly the right to buy, and from the encouragement given to authorities to dispose of surplus land.

But my decisions on the level of housing current expenditure also have a bearing on the amount I have been able to make available for capital.

I discussed with the Housing Consultative Council on 17 December the level of local housing income and of management and maintenance expenditure to be taken into account for subsidy and rate support grant. I have considered carefully the views which its members put to me, and I have also noted the points raised when the House debated rents on 16 December. I have decided that I should give effect to my subsidy proposal by determining an increase in the local contribution of £2.50 per dwelling per week for 1982/83. It is for individual authorities to decide how to finance such a contribution from local sources. On average, however, I assume that authorities will choose to meet their increase in local contribution from rental income, so that next year average rents would rise by £2.50 per dwelling per week.

On management and maintenance, I would propose to increase the expenditure counting towards the subsidy calculation to 7% above its 1981/82 level.

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After allowing for other items of revenue expenditure, I have been able to provide £2033 million net for capital expenditure. Housing capital receipts are forecast at £1124 million. Gross provision will therefore be £3157 million. This sum will be divided as follows.

Home loan and other net lending	£ 8 million
New Towns	£ 73 million
Housing Corporation	£ 556 million
Local Authorities	£ 2520 million

The new towns allocation reflects the fact that the publicly rented programme in the new towns has virtually finished, with remaining investment concentrated on opening up new sites for private development, on shared ownership, and on repair and im provement of dwellings prior to transfer to local authorities. The gross provision for the Housing Corporation at £556 million is being maintained in real terms for the second year running, and comprises an allocation of £530 million plus an estimated £26 million of capital receipts.

Within the gross provision for local authority investment of £2520M , some £30 million has been set aside for the homes insulation scheme, though authorities are free to transfer a greater sum to home insulation from elsewhere within their single capital block if they wish.

The amount of the housing investment programme allocations to local authorities has however to take account of the fact that, under the system of capital expendit ure control, local authorities can undertake expenditure over and above their allocations on account of their capital receipts, or a prescribed proportion of these. I estimate that

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in 1982/83 they will be able to undertake at least an additional £593 million of expenditure in this way. £3 million must also be allowed for the administrative costs of the homes insulation scheme. Allowing for rounding, the amount distributed as HIP allocations will therefore be £1925 million. I also wish to make it clear that local authorities can plan their capital expenditure for 1982/83, on the firm assumption that, at the national level, housing capital receipts will reach the figure forecast by the Government. If in the event receipts in 1982/83 fall short of that forecast, authorities collectively can safely bring forward from 1981/82 an equivalent amount of capital receipts not used to augment allocations in that year.

I have discussed the method of distributing HIPs with the local authority associations and today I am informing local authorities of their individual allocations for 1982/83. Copies of the letter to authorities and of the schedule of allocations are being placed in the Library.

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LST
MST (C)
~~MST (L)~~
Sir A Rawlinson
Mr Barratt
Mr Kitcatt
Mr Mountfield
Miss Brown
Miss Peirson
Mrs Woods
Miss Noble
Mr Godber

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

16 December 1981

Dear Secretary of State,

Cabinet concs on public Expenditure Pt 17.

HOUSING SURPLUSES

Thank you for your letter of 11 December on this subject. I also owe you a reply to your letter of 3 December about the question of housing capital receipts which is still outstanding following the Cabinet decisions on 26 November. I hope you will agree that it is sensible to deal with these two subjects together as they impinge on the question of housing capital allocations.

I fully understand the urgency of reaching decisions on these issues and that you hope to be able to announce the capital allocations for housing simultaneously with other service blocks on 21 December. But I am sure you will agree that we must reach a satisfactory solution first and, in particular, that you will need to be cautious in presenting the position to the Housing Consultative Committee on Thursday.

I am sorry that you have felt unable to accept any of the temporary holdback options which I suggested. They would have insured the public expenditure totals against failure by authorities with HRA surpluses to deliver rent increases without any permanent or damaging loss of capital investment if the rent increases were achieved. On the face of it, therefore, we seem to be left with the fall-back position of reaching a judgement about the likely extent to which authorities will fail to increase rents. When we met on 17 November you and John Stanley put the likely shortfall at some £50 million. I regret that I cannot be so sanguine; I would estimate that, in the absence of any real pressures to increase rents, it must be unlikely thay more than half the required rent increase will be achieved by authorities with potential surpluses. Thus, in implementing the change in PES treatment of HRA surpluses, I would only expect the total of surpluses to be added to the housing programme total to amount to some £90 million not the £180 million you have predicted.

I see less difficulty on the question of capital receipts. Your letter of 3 December includes a number of different figures for the expected increase in receipts. As I recall the discussion in Cabinet, however, both you and I were concerned to ensure that the level of gross local authority capital investment should be protected in real terms. The result was an agreement that expenditure up to that level should be guaranteed whether the extra capital receipts accrued or not. Although this arrangement may cause problems with the cash limit next year (if gross housing spending is up to the current real level and if housing capital receipts fall short of your forecast and if there is no shortfall on other parts of the local authority block), I am fully prepared to accept it.

It is more difficult to see how the effect of this can be communicated to the local authorities in a way which offers them individually useful guidance on the appropriate level of spending. However, this is something which we can only consider in terms of the text of the HP allocation which, I understand, is under discussion between our officials.

We should, for the record, agree the amount which is required to preserve the current level of gross local authority capital spending in real terms, in the light of the detailed recalculations following Cabinet. From figures which have been sent to my officials (and without having had the opportunity to examine the forecasts of sales which you have made), I understand that you envisage gross spending by local authorities of £2519.5 million in 1982-83 compared with £2200 million in 1981-82, an increase of £320 million. To preserve the real value of the 1981-82 figure would require £2398 million, an increase of some £180 million. I take it, therefore, that the latter is the additional expenditure which is to be covered by the Cabinet agreement.

I am very ready to discuss any of the outstanding points if that would be helpful. I should, however, note that I do not see our discussions (or my proposals) as offering any threat to the investment programmes of our colleagues provided your assurances about the deliverability of the HRA surpluses are valid. Nonetheless, I am copying this letter to the recipients of yours.

yours sincerely

LEON BRITTAN

PP (approved by the Chief Secretary and signed in his absence)