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c. Blaylock

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P.01425

PRIME MINISTER

Public Expenditure: Housing Programme

You are seeing the Secretary of State for the Environment to discuss the housing programme in preparation for the public expenditure discussion at the Cabinet on 8 November. The Chancellor will be letting you know, when he sees you later today, whether he thinks that it would be worthwhile to use your meeting to try and reach a settlement with Mr Jenkin. If not, the purpose of the meeting would be:

- i. to enable you to hear Mr Jenkin's side of the case; (helpful both for your own briefing and in the handling of Mr Jenkin personally)
- ii. to give you an opportunity to exert some pressure on Mr Jenkin in the hope of making him more amenable to yielding some substantial ground at Cabinet;
- iii. to elicit what room for manoeuvre there may be in Mr Jenkin's position; (although he will probably not wish to disclose this before Cabinet).

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... 2. The essential figures are summarised in the relevant Annexes to the paper for the Cabinet (C(84)32), a copy of which is attached for ease of reference. The main points to note are:

Mr Jenkin has circulated his own paper C(84)32

- i. The programme is large in gross terms, ie £3.8 - £3.9 billion, of which £2.8 billion to £3 billion are relevant for the purposes of expenditure cuts; the reductions proposed by MISC 106 (£380 million a year rising to £560 million a year) should be seen in this context.

SECRET

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ii. Although the programme is discussed under three separate headings (new dwellings, local authority renovation, and home improvement grants) central Government cannot prescribe a line of expenditure for each of these headings; the outcome, which is determined by local authorities, can only be estimated.

iii. The gap between MISC 106 and Mr Jenkin is greatest on new dwellings (gap rising from £250 million to £450 million a year compared with gross expenditure of about £1.3 billion); the key issue is how many new public sector housing starts a year the Government wishes to see: 40,000, as Mr Jenkin would wish, or 15-20,000 as MISC 106 considers reasonable both on public expenditure grounds and in line with the policy of switching emphasis from public sector to private sector provision.

iv. The area of expenditure where MISC 106 was relatively more sympathetic to Mr Jenkin was local authority renovation, because of the problems created by badly constructed post-war housing, MISC 106 thought that a modest increase would be reasonable (eg £50 million a year on a gross figure of £1.0 billion to £1.1 billion) rather than the increase of £200-£300 million a year being sought by Mr Jenkin.

v. On home improvement grants the issue is whether, as Mr Jenkin proposes, to maintain the existing level of expenditure, or to reduce it by about half (£230-£210 million on a total of £450 million) so as to bring it back to the same level in cost terms before the upsurge in 1982/83 and 1983/84.

3. The gap between Mr Jenkin's position and the MISC 106 proposals is a large one:

£ million		
1985/86	1986/87	1987/88
<u>630</u>	<u>820</u>	<u>960</u>
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It would be difficult to meet him by more than about £100 million a year without very serious consequences for the overall public expenditure totals.

PLG

P L GREGSON

6 November 1984

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ANNEX IHOUSING

	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>
Survey baseline (excluding local authority current expenditure)			
- gross expenditure	3807	3876	3940
- <u>less</u> receipts	-1300	-1300	-1300
Net expenditure	2507	2576	2640
Agreed adjustments*	+ 153	+ 118	+ 80
Adjusted baseline	2660	2694	2720

* Including - 30 a year on account of increased private sector finance for the Housing Corporation.

Although the survey figures for the housing programme are net of receipts, the better measure of activity under the programme is gross expenditure. For this reason the discussion in paragraphs 2 to 10 below is largely in terms of gross expenditure. However, it must be remembered that how local authorities (the main spending authorities) distribute expenditure within their capital allocations is a matter for them. The figures in this Annex for individual components of the programme therefore represent best estimates of how local authorities would actually behave, not control figures which the Government can be certain will be delivered.

Overall position

2. Overall, the Secretary of State for the Environment bids for additional gross provision of:

+ 250	+ 350	+ 400
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He would expect this to be distributed broadly as follows.

New dwellings and conversions	+ 50	+ 50	+ 50
Renovation and repairs	+ 200	+ 300	+ 350
Home improvement grants	0	0	0

3. MISC 106 recommend the following reductions in gross provision:

- 380	- 470	- 560
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They would expect these to be distributed broadly as follows.

New dwellings and conversions	- 200	- 300	- 400
Renovation and repairs	+ 50	+ 50	+ 50
Home improvement grants	- 230	- 220	- 210

4. The Secretary of State for the Environment agrees that this is a plausible distribution for 1986-87 and 1987-88, but not for 1985-86. He estimates that in 1985-86, allowing for mandatory grants and outstanding approvals for 1984-85, expenditure on home improvement grants will be at least £320 million, so that the maximum reduction on baseline (paragraphs 9 and 10 below) would be £130 million. Since it would not be possible further to reduce expenditure on new dwellings and conversions without a complete moratorium on starts in 1985-86, local authorities would in practice have to reduce expenditure on renovation. The outcome would then be a reduction, rather than an increase, of £50 million in such expenditure in 1985-86.

New dwellings and conversions

5. Gross expenditure consistent with the baseline provision would be:

1323	1327	1323
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It would allow between 25,000 and 30,000 new starts a year. The Secretary of State for the Environment does not consider this adequate. In his view, within an overall increase of 190,000 households a year, there will be a net increase of 75,000 households a year who will have to look to the public sector for accommodation because they cannot afford owner occupation. In the light of the public expenditure situation he does not press for an increase in provision sufficient to allow this number of new starts; but he regards it as necessary to make provision allowing for upwards of 40,000 new starts a year.

6. MISC 106 do not accept this view. They consider that the estimate of 75,000 new households allows for many categories who have no strong claim to housing in the public sector. It is the Government's policy to switch provision from the public to the private sector. In their view, it would be sufficient to provide for between 15,000 and 20,000 starts a year.

Local authority renovation and repairs

7. Gross expenditure consistent with the baseline provision would be:

1020	1075	1130
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The Secretary of State for the Environment regards a significant increase on this level as necessary. He points out that the local authority stock of housing is ageing. Moreover, it has recently come to light that some 125,000 prefabricated reinforced concrete houses in England are seriously defective, and that it will cost about £1.5 billion to deal with them. Some industrialised housing built in the middle of 1960s suffers from major structural defects. Serious design faults and bad planning have produced appalling housing conditions in the large council estates, such as Ronan Point type blocks.

8. MISC 106 agree that some increase in expenditure on renovation and repairs is desirable. But they do not believe that increases in expenditure on the scale proposed by the Secretary of State can be afforded. The existing provision covers expenditure on repairs and maintenance of lower priority which could be cut, if necessary, to allow essential safety work to be done.

Home improvement grants

9. Expenditure consistent with the baseline provision would be:

450	450	450
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The Secretary of State for the Environment considers that £600 million a year needs to be spent in order to ensure that the condition of the privately-owned stock does not deteriorate over the survey period. In present economic circumstances he is prepared to live with the baseline provision, even though that would be likely, in his view, to lead to an increase over the survey period of some 100,000 dwellings in serious disrepair.

10. MISC 106 do not accept this view. They agree that expenditure on home improvement grants is desirable. But what is desirable must give way to what can be afforded. The State has no obligation to subsidise repairs and improvements to owner-occupied housing (mandatory grants for the addition of basic amenities are a different matter). Their proposals would allow expenditure on home improvement grants to continue at broadly the same level, in cost terms, as before the upsurge in expenditure in 1982-83 and 1983-84.

Receipts

11. It is common ground between MISC 106 and the Secretary of State for the Environment that the baseline estimates of receipts should be increased, yielding reductions in forecast net expenditure of:

- 300	- 100	0
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Effects on planning totals

12. Allowing for additional receipts and agreed adjustments, the Secretary of State for the Environment's proposals would involve additions to baseline of:

+ 103	+ 368	+ 480
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The Group's recommendations would produce reductions of:

- 527	- 452	- 480
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SCOPE FOR REDUCTIONS IN "OTHER LOCAL AUTHORITY EXPENDITURE

	1983-84 Outturn	1985-86 Provision	Excess
Non-HRA improvements and low cost home ownership	62	75	- 13
Thermal Insulation Scheme	22	35	- 13
Mortgages	44	50	- 6
Slum Clearance	40	40	0
TOTAL	168	200	- 32