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Prime Minister (2)

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Treasury Chambers, Parliament Street, SW1P 3AG

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

14 May 1982

Dear Secretary of State,

LOCAL AUTHORITY BUDGETS: HOUSING REVENUE ACCOUNT SURPLUSES

We are to discuss in E Committee next week the question of local authority budgets and what action should be taken through the RSG mechanisms to curtail local authority overspending in 1982-83. The analysis of budgets shows, however, that we are facing another problem on which I believe we also have to be ready to act.

This is the question of Housing Revenue Account surpluses. During the public expenditure discussions last year, it was agreed that, although we wished all local authorities to increase rents in line with our decision, the RSG mechanism should not be applied to those authorities which were likely to have a surplus of rent income. I argued strongly that some alternative mechanism should be used to ensure their compliance with our wishes but you felt that this was unnecessary since most of the authorities concerned were our political friends and that you would be able to persuade them to behave as we wished.

The analysis of budgets shows, however, that this has not been the case. Had all local authorities increased their rents by £2.50, we would have expected HRA surpluses amounting to some £180 million to be produced. As it is, local authorities are budgeting for surpluses of only some £10 - £20 million, a shortfall of £160 - £170 million (which has to be added to the £130 million overspending on housing identified in your paper for E Committee - making a total of £300 million in all). In short, it seems that in almost all cases, the authorities concerned decided to set their rents at a level which will leave their HRAs in balance. This was not our intention.

There is little that can be done about this for 1982-83 but it demonstrates the importance of having some mechanism for ensuring

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that authorities with potential HRA surpluses carry out our decisions on rents in 1983-84 and make good the shortfall from 1982-83. There are a variety of options which we could adopt: holding back capital allocations, offsetting expected surpluses against capital allocations, requiring surpluses to be used to reduce borrowing, or a return to the use of the RSG mechanism to ensure that our decisions are carried out.

I do not believe that we can leave this question to be tackled, as it was last year, at the last minute, not least because of the possible legislative implications. I will be grateful, therefore, if you would let me know which of the options available you think we should adopt for next year.

I am copying this letter to all members of E Committee.

Yours sincerely

T. Matthews

for LEON BRITTAN

/ Approved by the Chief Secretary
and signed in his absence 7

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

19 May 1982

Dear Michael,

LOCAL AUTHORITY BUDGETS 1982-83:
 HOUSING REVENUE ACCOUNT SURPLUSES

Leon Brittan sent me a copy of his letter of 14 May to you on this matter.

I agree with him that the very small HRA surpluses in prospect for this year are a matter for concern. He is writing mainly about rent increases but his proposed reactions include changes on the capital front. I think we should be chary of any action for next year which might lead to a reduction in capital expenditure, given the serious shortfall in that area last year. (Equally, I am doubtful about the desirability of legislative action.) Educational capital expenditure would be involved and I hope that officials here can therefore be associated with consideration of the options.

I am copying this letter to the Prime Minister, the other members of E Committee and Sir Robert Armstrong.

Ever,

Kerr