CONFIDENTIAL

CCBG

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My ref:

Your ref:

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1

Prime Minister
N Ridley's bids still amount to nearly £1 billion in 1987-88 for housing etc.
DCR 16/6.

13 June 1986

Dear John

PESC 1986 - DOE (CENTRAL)

I am writing to give you my preliminary assessment of the need for resources of my Department's two main PESC programmes in 1987-88 and following years. The Programmes are complex and the sub-programmes varied, and I have not yet had time to explore every line in as much detail as I should ideally like. Nevertheless, I have been forced reluctantly to the conclusion that I must ask for additional resources. I may also want to make some adjustments within the final programme baseline totals, when I have been into the various sub-components in more detail.

Local Authority Capital Allocations

The largest element of my bids, and the one which conditions their shape as well as their size, is accounted for by the need to provide resources cover for the capital allocations my predecessors - with Treasury agreement - promised to give local authorities for 1987-88. Undertakings were given that both Housing allocations and Other Services Block allocations to each authority in that year would amount to at least 80% of 1985-86 allocations. I have considered whether it is possible to escape from them, but I cannot at present see that it is. The surest way to do so would be to legislate to establish a new capital control system to come into effect on 1 April 1987. However, the legislation would be difficult and I do not believe that we could guarantee to get a satisfactory Bill through Parliament in time. My Department have sought the advice of the Law Officers' Department on the possibility of overturning the assurances without legislative cover. The Solicitor General's advice is not encouraging. He confirms that the courts would attach considerable weight to the undertakings. He advised that I could probably resist challenges on the grounds of "a substantial change in economic circumstance which has arisen so as to disrupt to a significant degree the Secretary of State's anticipations at the time the letter of 19 December 1985 [the allocations letter] was sent." He also advises that I would have to declare my intention not to honour the undertakings at the earliest possible moment, and give the authorities concerned a chance to make representations. That seems very undesirable.

Until we have agreed the methodology for relating PESC provision to capital allocations between ourselves and the other interested Departments - Education, Transport, and Health and Social Services - it is not possible to say precisely what PESC figures I shall need in my two programmes to deliver the 80% assurance. In the discussion which follows, I have included an approximate figure in each programme, but we should understand that it may need to be adjusted in the light of technical decisions on the methodology.

The Housing Programme

The 80% assurance requires an uplift of an estimated £450m in the local authority housing capital lines. Such an increase would be distributed across the relevant lines as follows:

to meet councils' statutory obligation under the Housing Defects legislation to assist owners of former publicly owned houses and flats which are defective and beyond economic repair by buying them back:	£ 10m
to meet Councils' statutory obligations to give grant to assist owners to repair defective and unsaleable houses and flats they have acquired from the public sector:	£ 20m
to meet mandatory and committed expenditure on home improvement grants:	£ 40m
for improvement grants to enable disabled people to carry out essential adaptation work:	£40m
for grants to poorer owner occupiers for essential works to counter growing disrepair:	£ 25m
to continue urgent work on the backlog of repair of council housing:	£315m
Total addition to local authority capital lines covering HIP allocations:	£450m

These increases would thus allow me to keep my predecessors' promises. They would not, however, allow any freedom at all to start to steer local authority expenditure more directly towards the areas where the problems are most acute, or to make any progress in channelling investment to pave the way to the privatisation and breaking up of large estates which I believe to be the only sensible long-term objective for us to adopt in relation to council housing. The Urban Housing Renewal Unit, set up 12 months ago, is spearheading this approach, and for 1986-87 has £50m of allocations held back from the general distribution which it can direct to stimulate particularly useful initiatives

consistent with our long-term objective. The lure of additional resources enables the Unit to have an influence for the good far beyond the relatively small sums it can allocate to individual authorities. This year's £50m is already heavily over-subscribed, and the Unit is building up considerable momentum. Without resources next year, it would be lost. I therefore need something over and above the provision to cover the "bare 80%" allocations, in order to keep the Unit alive, and to enable it to carry on with its pioneering work. To build on its successful start, it needs an additional £200m.

I make no bid for resources for local authorities to build new houses for rent. In my view we should discourage them from doing so. Councils, however, have a statutory duty to house the homeless, and homelessness is increasing. They are resorting increasingly frequently to the unsatisfactory and wasteful expedient of putting families in bed and breakfast accommodation. In a few stress areas there is an acute shortage of cheap rented accommodation which the private sector cannot at present meet. Some additional homes are needed. I believe we should use the voluntary housing sector to provide these homes, rather than the local authorities, for two main reasons. First, because we can direct and control their activities much more precisely through the Housing Corporation and the Housing Association Grant system, and secondly because the associations are actively working towards greater co-operation with the private sector, and can start to bring private money once again into the mass market for rented housing. Our officials are discussing a number of pilot schemes to bring private investment into housing for homeless and elderly people, and young job movers, so that only 30% of their cost would fall to the public purse. I am seeking an additional £95m for the Housing Corporation's Approved Development Plan in 1987/88, in part so that these innovative schemes can be worked up and put into operation, and, so that we can make a well-targetted and effective onslaught on homelessness, particularly in London.

The scope for offsetting savings from the other Housing capital lines is severely limited, but I have looked again at them all, and can offer you a 25% reduction of the Homes Insulation Scheme provision, from £20m to £15m for 1987-88.

Finally, on the current side of the programme, I should like very much to explore the possibility of reducing our expenditure on subsidy by increasing the subsidy guideline for council house rents. But such a policy interacts with the Department of Health's Housing Benefit expenditure, and under present conventions may have the paradoxical effect of increasing net public expenditure, rather than decreasing it. Our officials are discussing this matter urgently with their colleagues from DHSS. If they can resolve some of the difficulties, there may be useful savings to be had. Failing that, I fear I will have to return to you with a bid for a further £11m net addition to meet local authorities' forecast statutory entitlements to housing subsidy in 1987-88.

All these figures are set out in the attached table.

Other Environmental Services Programme

Turning now to my other Programme, we straightaway run up against the "80% allocations" assurance again. For LES Capital, the largest single component of the Other Services Block, an increse in provision of an estimated £125m is needed to cover the promised allocations. There is no escaping this. Again, a substantial bid is in any case justified to meet the growing pressures in this area, many of which have been created by our own initiatives or are imposed by statutory duties. Even with another £125m, the level of provision will imply a real-terms cut from previous years' outturn.

Then there are four other sub-programmes where new policy initiatives require an uplift in provision:

In the Urban Programme, the new Urban Regeneration Grant, which is designed to support and encourage private sector led area improvement without the local authority acting as an intermediary, will require at least £10m in 1987/88.

E(A) have recommended that we study the case for new Urban Development Corporations. I shall propose the designation of a number of additional UDCs. This, together with the need to maintain progress in the London and Merseyside UDC areas, particularly essential road improvements in London docklands, will require a further £45m in 1987/88.

The Prime Minister's recent initiative on litter and the National Environmental Works Scheme (NEWS) will call for £2m of new resources in 1987-88; and

OD(HD) Committee's decision that very high priority should be given to a programme of remedial action in the water industry to improve civil defence readiness demands a further £2.8m in 1987-88.

There are also three sub-programmes where irresistible external demands cannot be met from within the baseline:

the Royal Palaces and Parks need £1m extra in 1987-88 for works to make good the damage caused by the Hampton Court fire;

the Nature Conservancy Council needs more resources if it is to continue to implement agreed policy to safeguard Sites of Special Sceintific Interest. For this, and other urgent work to promote agreed nature conservation policies, £7m more will be required in 1987-88; and

my Departmental Administration line, despite a remarkably successful efficiency drive which has been sustained for several years past and still continues, is unable to cope with the new demands of collecitvely agreed policy initiatives, and with the continuing gap between the costs of pay settlements and the increases permitted us. I need £9m more in 1987-88.

Finally, I believe that there are two areas of policy which will justify, and will repay, a modest increase in resources. We need to maintain a vigorous programme of derelict land reclamation if we are not to be overtaken by increasing dereliction, and if we are to preserve the green belts from unnecessary encroachment. I am therefore asking for a further £15m for this programme in 1987-88.

Our policies on the countryside and the rural economy rely heavily on the work of the Development Commission and the Countryside Commission, and I seek a small expansion of their provision in 1987-88, of £2.5m and £2.3m respectively.

I have looked for savings elsewhere in the Programme, but can find only £2.1m per year from reduced demand for sewerage grants, and some larger savings from the New Towns in the later years, reflecting success in increasing the share of investment costs borne by the private sector.

All the figures are given in the attached table. My officials will be sending supporting material to yours early next week.

I am writing separately about the PSA. We are discussing the needs of the BWB and the Water Industry in the context of the Nationalised Industries' IFR.

I am sending copies of this letter to the Prime Minister, Peter Walker, Malcolm Rifkind, Nicholas Edwards, and John Moore.

NICHOLAS RIDLEY

PESC 1986

£million

Programme Title	1987-88 Baseline	1987-88 Bid	1988-89 Baseline	1988-89 Bid	1989-90 Baseline	1989-90 Bid
HOUSING PROGRAMME						
Capital:						
Public Sector renovation	1545	515(1)	1529	525(1)	1550	535(1)
Provision for rent	1084	90(2)	1017	100(2)	1031	85(2)
Private sector renovation	390	120(3)	373	120(3)	378	120(3)
Home Ownership	191	15(4)	189	5(4)	193	5(4)
Total Gross Capital	3210	740	3108	750	3152	745
Receipts	-1481	-	-1335	-	-1335	-
Current(5)	639	11	639	-3	656	-
HOUSING NET BASELINE AND BID	2368	751	2412	747	2473	745
DOE OTHER PROGRAMME						
LES Capital	179	125	177	127	182	122
Urban Regeneration Grant	-	10	-	15	-	20
Derelict land	81	15	84	15	86	15
Urban Development Corporations	86	45	89	70	91	70
Development Commission	28	2.5	28	6	29	9
Royal Palaces and Parks	37	1	38	2	39	2
Countryside Commission	18	2.3	18	2.6	19	2.8
Nature Conservancy Council	32	7	33	7	34	7
Other Environmental Bodies (NEWS/Litter bid)	9	2	9	2.5	9	2.5
Departmental Administration	103	9	106	7.3	109	7.5
Environmental Research	39	2	40	3	41	3
Civil Defence	0.2	2.8	0.2	4.3	0.2	5.8
Reduced Requirements						
New Towns	-35	-	-25	-15	-25	-28
Other Water Services (Sewerage grants)	4	-2.1	4	-2.1	4	- 2.1
DOE OTHER: BASELINE AND NET BID	880(6)	221.5	907(6)	244.6	930(6)	236.5

(1) Bid includes £200m for UHRU, £50m of which may be spent through the Urban programme

(2) Bid includes £80m for Housing Corporation provision, £30m of which is for joint schemes with the private sector

(3) Bid net of £5m reduction in Homes Insulation Scheme

(4) For Housing Corporation Low Cost Home Ownership

(5) Figures exclude rate fund contributions, which is now outside Housing Survey total. The bids are net of savings flowing from reduced interest rate assumptions, which must be surrendered to the Treasury under the "Concordat". Gross bids are £21m in 1987-88 and £39m in 1988-89

(6) Total DOE Other Survey baseline, excluding UP current expenditure.

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CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
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My ref:

Your ref:

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1

13 June 1986

Prime Minister
The reductions in the bids made by Mr Ridley from those made by Mr Baker are quite modest.
DHS 13/6.

Dear Chief Secretary,

PES 1986: PSA EXPENDITURE

I have now had an opportunity to review the needs for expenditure by the PSA.

The PSA has an urgent need for extra resources to tackle the present under-funding of accommodation work which is now causing acute difficulties for the Agency and its clients. To a substantial extent, this represents unavoidable commitments which must be met, notably on rents. But it is equally necessary not to jeopardise Government operations by failure to provide for essential works, and to recognise the strong economic case for investment to save future expenditure rather than to continue to let the Government estate deteriorate.

I have however felt able to make some reductions in the bids previously thought necessary. For 1987-88 I have done this by re-examining the need for freehold purchases, rephasing extra expenditure on estate rationalisation, and taking credit for expected additional PRS rent receipts on the basis of latest information. The net effect is a reduction in the overall bid to £99.6m. For the later years, I have made larger reductions, lowering the total bid for 1988-89 to £108.6m and for 1989-90 to £113.8m. I have flattened out the bid for extra maintenance funds in each year, and reduced the bids for rents and administration. I should point out that the latter is something of a misnomer, since it represents the extra resources required for consultants' fees and professional and technical staff to design, specify and control the extra new works and maintenance programmes proposed.

From 116
From 137
From 155

I attach a table which shows the bids. I have re-cast this somewhat to focus rather more closely on the issue of the Government's investment in property assets. I have retained the bid for purchase of freeholds (though reduced in amount in 1987-88) because I recognise that ownership rather than leasing of essential office accommodation generally makes good economic sense (a point which the Environment Committee press on us again in their report on PSA's 1986-87 Estimates published this week). On disposals of surplus land and property, PSA exceeded its target in 1985-86 and expect to do so again this year. This has in some cases meant pulling forward sales which had been expected to take place in later years, thus making the future task more difficult. Nevertheless I want to look a bit further at whether there is any

scope for doing more, particularly in the storage estate, where there may be a case for contracting out the storage function to the private sector and thus releasing capital at present tied up in property. I recognise that policy issues may arise here for colleagues and I will of course be in touch with them as necessary. I have added £2m to the disposals figures for later years, but at this stage I would not want to raise expectations that more can be found here for the PSA programme - particularly since the disposals baseline already takes credit for continuing sales of non-specialised storage property.

I am sending copies of this letter to the Prime Minister; to all departmental Ministers with an interest in the PSA works programmes; and to Sir Robert Armstrong.

Yours sincerely,

Rly

pp NICHOLAS RIDLEY

(Approved by the Secretary of State in draft and signed in his absence.)

	1985-86	1986-87	1987-88			1988-89			1989-90		
	Forecast	Provision	Baseline	Bid	Proposed New Baseline	Baseline	Bid	Proposed New Baseline	Baseline	Bid	Proposed New Baseline
Major New Works	72	51.0	21.8	34.1	55.9	15.8	24.2	40.0	16.2	18.3	34.5
Minor New Works	33	27.2	27.1	5.0	32.1	27.8	5.1	32.9	28.5	5.2	33.7
Fees	13	12.5	6.4	-	6.4	6.6	-	6.6	6.7	-	6.7
Sale and Purchase of Capital Assets											
Disposals	-23.0	-22.8	-22.0	-	-22.0	-16.0	-2.0	-18.0	-16.4	-2.0	-18.4
Purchase of Freeholds	-	-	-	5.0	5.0	-	10.0	10.0	-	10.0	10.0
Net Investment	-23.0	-22.8	-22.0	5.0	-17.0	-16.0	8.0	-8.0	-16.4	8.0	-8.4
TOTAL CAPITAL :	95	67.9	33.3	44.1	77.4	34.2	37.3	71.5	35.0	31.5	66.5
Rent Payments	207	225	230.6	18.7	249.3	236.4	31.7	268.1	242.2	41.0	283.2
Rent Receipts	-33	-33.3	-34.1	+7.5	-26.6	-35.0	+8.6	-26.4	-35.9	+8.4	-27.5
TOTAL RENTS :	174	191.7	196.5	26.2	222.7	201.4	40.3	241.7	206.3	49.4	255.7
Maintenance	76	84.2	79.7	15.0	94.7	81.7	15.0	96.7	83.8	15.0	98.8
Running Costs	31	29.1	31.2	-	31.2	32.0	-	32.0	32.8	-	32.8
TOTAL MAINTENANCE ETC :	107	113.3	110.9	15.0	125.9	113.7	15.0	128.7	116.6	15.0	131.6
Vacant Space	39	46.1	49.7	9.0	58.7	50.9	9.0	59.9	52.6	9.0	61.6
Administration	75	73.6	80.0	8.5	88.5	82.0	6.5	88.5	84.1	5.5	89.6
Conference Estate*	(1.5)	(5.0)	(1.5)	3.0	3.0	(1.0)	3.0	3.0	(0.5)	3.0	3.0
PRS Rent Receipts	-433.6	-425.3	-437.3	-10.0	-447.3	-446.4	-10.0	-456.4	-455.7	-10.0	-465.7
PRS Other Receipts	-145.1	-142.5	-142.3	-	-142.3	-147.7	-	-147.7	-153.2	-	-153.2
TOTAL PRS RECEIPTS :	-578.7	-567.8	-579.6	-10.0	-589.6	-594.1	-10.0	-604.1	-608.9	-10.0	-618.9
TOTAL OFFICE PROGRAMME :	-88.7	-75.2	-109.2	95.8	-13.4	-111.9	101.1	-10.8	-114.7	103.4	-11.3
PARLIAMENTARY WORKS :	9.2	9.3	14.4	3.8	18.2	14.7	7.5	22.2	15.1	10.4	25.5
TOTAL PSA :	-79.5	-65.9	-94.8	99.6	4.8	-97.2	108.6	11.4	-99.6	113.8	14.2

*Provisions for expenditure on the Conference Estate are included in the other lines shown in this table.

The Rt Hon Lord Hailsham of St Marylebone PC CH FRS DL
Lord Chancellor

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon Douglas Hurd MP
Secretary of State for the Home Department

The Rt Hon Peter Walker MP
Secretary of State for Energy

The Rt Hon George Younger MP
Secretary of State for Defence

The Rt Hon Malcolm Rifkind MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Norman Fowler MP
Secretary of State for Social Services

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food

The Rt Hon John Moore MP
Secretary of State for Transport

The Rt Hon Lord Young of Graffham
Secretary of State for Employment

The Rt Hon Kenneth Clarke QC MP
Paymaster General

The Rt Hon Sir Michael Havers QC MP
Attorney General

The Rt Hon Lord Cameron of Lochbroom QC
Lord Advocate

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