SECRET

MISC 120

PRIVY COUNCIL OFFICE
WHITEHALL. LONDON SW1A 2AT

24 October 1985

cc - Mr Unwin
Mr Wiggins

Dear Secretary of State,

MISC 120: DOE PROGRAMMES

Following your meeting with the Group yesterday afternoon, I promised to write to you to set out the Group's proposals for settling the three programmes under discussion.

On housing, as the Group sought to make clear to you, we do recognise that higher priority must be attached to renovation of the public sector housing stock, and we therefore offered increases of £100 million, £200 million and £200 million on this part of the programme for the three survey years. But we felt that public sector new build had a lower priority, and accordingly proposed reductions in expenditure consistent with the maintenance of 30,000 starts in 1986/87 and 1987/88, and 28,000 in 1988/89; we assumed that, together with a £30 million reduction in improvement grants in 1987/88, a programme on this basis would give rise to reductions below baseline of £60 million, £195 million and £115 million. Taking account of the agreed irresistible bids, and your further savings (set out in the paper you gave the Group on 22 October) of £65 million, £60 million and £65 million, we proposed a net increase in the housing programme for the three years of £120 million, £100 million and £80 million.

You made clear that you did not consider this a sufficient response to the social needs created especially by the unsatisfactory condition of much public sector housing, although it appeared that - as you suggested at your first discussion with the Group - you could accept public sector housing starts of 30,000 a year. You insisted to the Group that you had to have an increase in gross capital expenditure above the forecast 1985/86 outturn, despite the £250 million overspend implied by that forecast; and you further urged the need for allocations of at least £1,600 million for 1986/87, as against some £1,230 million consistent with the Group's proposals. As we understand the position, agreeing to your proposal on allocations, even accepting your proposed change in methodology, would require an increase in the gross capital expenditure of at least £200 million above the figure contemplated in the settlement proposed by the Group.

The Rt Hon Kenneth Baker MP

The Group have considered the position further following our conversation with you. They continue to believe that the proposal described above, which would permit a substantial increase in your priority programme of housing renovation, is the most reasonable offer they can make in the circumstances and they do not feel able to increase it. The proposal assumes that you would at the same time accept the Chief Secretary's proposal that the 'DOE other' programme would be settled on the basis of reductions below baseline of £25 million, £20 million and £15 million for the three years, after allowing you the benefit of additional new town receipts.

On water, we also assume that you will be able to provide for investment of at least £880 million in 1986/87 without any increase in external financing, and within an average increase in domestic water charges not exceeding 8 1/2 per cent; and that you will be able to accept a provision of £60 million below the baseline in 1988/89, although this will no doubt need to be considered again at a later stage in the light of a pre-privatisation review. We would equally be content if in 1986/87 you went for a slightly lower investment and a somewhat smaller price increase. You are also giving further consideration with the Chief Secretary to the rate of return.

I need not further labour the very great difficulties under which the Group are working. I feel that in making this offer we have gone as far as anyone could reasonably expect in giving higher priority to housing renovation. I very much hope, therefore, that you will be able to accept this offer; I do not see how the Group can improve it, and if you conclude that you should refuse it, I can give no undertaking that we shall not find ourselves obliged to propose something less favourable to your programmes when the Group's report is made to the Cabinet.

I am sending a copy of this letter to the members of MISC 120, to the Chief Whip, Commons, Mr Unwin in the Cabinet Office, and Sir Robert Armstrong.

Yours sincerely

Joan Wheelwright

for VISCOUNT WHITELAW

Approved by the Lord Preside