

MISC 120: Housing

MISC 120 have been unable to reach agreement with the Secretary of State for the Environment. Mr Baker may therefore seek a meeting with you before Cabinet on 7 November.

The positions taken

2. A wide gulf remains between the Group and Mr Baker. At the outset the Treasury argued for a small net reduction on the total housing programme, made up of an agreed increase in current expenditure (mainly resulting from higher interest rates), to be offset by a reduction in net capital. The Secretary of State asked for a large increase in the total housing programme, including increases of £550 million for renovation of the public sector stock and £50 million for new provision for rent. The Group endorsed his higher priority for renovation, and offered additions of £100, £200 and £200 million for this purpose, but considered that this should largely be financed by reductions in other housing capital expenditure (mainly new construction). In further discussion with the Group today Mr Baker finally offered to reduce his demand for higher gross capital expenditure in 1986-87 from £600 million to £300 million,* meanwhile offering another £70 million of receipts in 1986-87. The Group, for their part, would have been inclined to settle for a gross increase above their original offer of £135 million, consisting of £65 million 'new' money and respending of £70 million of additional capital receipts; but the gulf was too wide to bridge.

What is at issue

3. For the purposes of this argument, there are three significant statistics: gross capital expenditure (which is what impacts on the housing stock), net capital expenditure (which is what affects the public expenditure programmes), and capital allocations to local authorities. The relevant statistics are summarised in the attached table, which concentrates on 1986/87; the argument with Mr Baker has not in effect proceeded beyond next year, and it would be reasonable to expect that the eventual broad outcome

* but on the basis of 'fudged allocations figures - see paragraphs 6-7.

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in terms of changes from baseline for 1986-87 will be carried forward into the 2 subsequent years.

4. Mr Baker has not sought to argue directly against the Group's proposed reductions in capital expenditure on new construction. He has argued instead that provision for gross capital in 1986/87 must not be lower than the estimated outturn for the current year of £3284 million; this is itself an overspend of £233 million on last year's White Paper provision, and is £200 million higher than the 1986-87 baseline. However, Mr Baker has argued that even an increase of £200 million over baseline would not be sufficient, because it would involve a reduction in allocations from the current year's £1600 million* to about £1430 million, on the generally applied assumption that local authorities will use each year 85 per cent of their total spending power (which largely consists of allocations plus the prescribed proportion of accumulated unspent capital receipts).

5. The Group considered the argument about allocations to be entirely presentational. Under the present arrangements for the treatment of capital receipts, each authority's bank of accumulated unspent capital receipts can be expected to increase steadily each year, which should in principle mean lower allocations each year to maintain a constant level of gross capital expenditure. The Group believe that Mr Baker could explain this satisfactorily, meanwhile pointing to a satisfactory story on the movements in gross and net capital expenditure from one year to the next. Mr Baker, by contrast, has argued throughout that a figure for allocations lower than £1600 million will be interpreted by local authorities and commentators as a 'cut in housing provision'.

6. Mr Baker has sought to come a little closer to the Group's position by proposing to assume that local authorities use smaller proportions of their aggregate spending power each year. The effect of this is to increase the allocations figure which would be consistent with given gross and net capital expenditure totals.

* previous Ministerial statements have never held out to local authorities the prospect of more than 70 per cent of the 1984/85 level, or about £1260 million.

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On this basis Mr Baker seemed prepared to examine the possibility of keeping gross capital expenditure in 1986/87 flat at its 1985/86 outturn level, but only on the understanding that allocations would be set at £1690 million on the assumption of 81 per cent use of local authority spending power. The Group were unwilling to accept this allocations 'fudge'; its effect would either be to produce a further overspend, as local authorities used a larger proportion of their spending power than had been assumed, or else store up trouble for future years, which could only be countered by still further reductions in allocations. The Chief Secretary pointed out that other Ministers had settled on the basis of the 85 per cent assumption, and that a different assumption for the housing programme would mean reopening a wide variety of other Departmental programmes.

Renovation

7. So far as renovation, which is agreed to be the top priority, is concerned, the provision for the current year was £1070 million, and the estimated outturn is £1130 million. On Mr Baker's proposals, expenditure in 1986-87 would be of the order of £1750 million, i.e. an increase of £600 million, or more than 50 per cent. On the basis of his bottom line position taken in the Group (with allocations reflecting the assumption of 83 per cent use of spending power) total expenditure on renovation next year would be about £1500 million, but with a significant risk of overspend. By contrast, on the basis of the highest offer contemplated by the Group, expenditure on renovation* would be £1430 million (£300 million above the current year's outturn, and £360 million above provision for the current year).

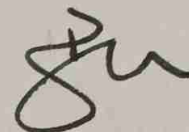
The wider context

8. The Group point out that, even in their initial offer, housing capital would be relatively generously treated by comparison with, for example, provision for schools and universities. The revised offer they contemplated would be generous, and would in effect validate the current year's substantial overspend by local authorities, which ought in principle to be eliminated. So far as the overall planning totals are concerned, this offer is absolutely at the limit of what could be

*partly financed by reductions in other capital expenditure which Mr Baker does not propose.

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accommodated within the agreed aggregates, after allowing for the estimating changes, etc on the social security programme and the further changes in the Reserve and in asset sales which you discussed with the Chancellor of the Exchequer and the Chief Secretary. If Mr Baker were to secure further concessions on housing capital, it would not appear possible for the Government to keep public expenditure within next year's agreed planning totals.



J B UNWIN

Cabinet Office
5 November 1985

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£ million

	1984/85	1985/86		Baseline	1986/87			Possible MISC 120 compromise
	Out-turn	Provision	Estimated out-turn		Mr Baker's initial proposal	MISC 120 offer	Mr Baker's last offer	
Gross capital	3893	3051	3284	3087	3662	3102	3386	3238
Capital receipts	-1784	-1731	-1651	-1531	-1531	-1531	-1601	-1601
Net Capital	2109	1320	1633	1556	2131	1571	1785	1637
Allocations	1852	1600	1600	1158	1790	1203	1650*	1357

* on the assumption that local authorities will use 83 per cent, not 85 per cent of their total spending power.

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