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CABINET

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LOCAL AUTHORITY HOUSING CAPITAL OVERSPEND 1980/81 (ENGLAND)

Memorandum by the Secretary of State for the Environment

1. The effective cash limit for local authority capital expenditure on housing in 1980/81 is £2.186 million. When I heard in October that local authorities might overspend against this limit by £180 million I immediately issued a circular imposing a moratorium on the letting of new contracts and asking for a return of their committed expenditure.

2. I have now received their returns. 250 authorities say that their committed expenditure is below their permitted level for the year by £133 million. 117 authorities consider that they are already committed to expenditure in excess of their total permitted spent by £78 million. The PESC cash limit is £56 million below the total that authorities have been told that they are permitted to spend because it does not include the "tolerance" for the carrying forward of underspent allocations from 1979/80. The local authorities' forecast of their committed expenditure is therefore very close to the cash limit; and the maximum theoretical overspend against the cash limit is £134 million, if those with headroom below their permitted level are allowed to commit themselves up to it.

3. Two questions arise. The validity of the figures and the consequences for action.

4. It is unlikely that the overspend will approach the maximum theoretical figure of £134 million. Indeed, it might not occur at all though the balance of probability is that there will be some overspend. The maximum figure rests on the assumptions that:

- a) the estimates, with all the attendant difficulties of prediction, are correct;
- b) all the sums committed by both the overspenders and the underspenders will in fact be paid out by authorities in this financial year, and
- c) all the underspenders, without any exception, will spend up to their maximum permitted level this year.

I believe that the highest figures therefore overstate the risk. The estimates are doubtful. It is improbable that all the money that authorities say is committed at this stage will in fact be paid out.

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Severe weather this winter could be a critical factor and result in large payments being made after 1 April 1981 rather than before. It is well nigh certain that not all of the 250 underspenders will spend up to the hilt. From previous records we know that some underspenders did not expect to reach their 1980/81 permitted spend by a sum of £26 million. The effects of the present moratorium will increase the likelihood of underspend. Authorities are being contacted individually now and I shall give the Committee an up to date assessment of the likely shortfall of the 250 underspenders against their permitted limits and a fresh estimate of the extent to which we might be at risk.

5. The action I have taken has caused deep resentment for the following reasons:

- a) It has caused great problems for authorities and disrupted the letting of contracts. As a result the underspending authorities, many of whom are our supporters, are outraged. They have managed their affairs efficiently and they are now suffering for the sins of others.
- b) The construction industry has suffered once again.
- c) Our action is seen as playing into the hands of those within local government who are advocating industrial non-cooperation against the Right to Buy and more widely across local government.
- d) Criticism in the press and in the House is increasingly hostile because of the blanket moratorium.

6. Despite all the uncertainties of the figures I propose however to take the following steps:

- i) To maintain the moratorium on new spending on the 117 overspend authorities until the end of 1980/81 or until they can satisfy my Department that they will not overspend.
- ii) To allow the 250 underspend authorities to resume spending normally up to the limit of their permitted expenditure.
- iii) To deduct from the 1981/82 allocations of the overspenders the amount they in fact overspend in 1980/81; but to add to the 1981/82 allocations of the underspenders any amount by which they underspend in 1980/81.

7. This is the fairest and most politically tenable solution. I recognise that it might still result in a breach of the cash limit in 1980/81 but this cannot be predicted at this stage. Any suggestion, however, of a continuing moratorium against the 250 underspenders would be difficult to sustain politically, do further damage to the construction industry and most likely produce an indefensible underspend at the end of the moratorium.

8. Treasury Ministers point out that it is central to the Government's economic strategy that public expenditure should be firmly controlled - and seen to be. This means that expenditure must be kept within cash limits. They consider that to proceed on the basis

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proposed above would run an unacceptable and avoidable risk of exceeding the cash limit. The Treasury view is that the moratorium should continue until it is clear that resumption of work would not put the cash limit at risk; and that the construction industry has no reason to expect more work than the cash limit will finance. They accept that allocations to individual authorities in 1981-82 should be reduced in the case of those who overspend in 1980-81 and increased for those who underspend, subject to the total allocation and expenditure in 1981-82 being kept within the cash limit for that year.

9. For the reasons given in paragraph 7 I do not accept that the moratorium against the underspenders should continue; and I invite the Committee to agree the proposals put forward in paragraph 6.

MH

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