



✓ JV
 Prime Minister (2)

To note X particularly.

The Chief Secretary and Mr

Heseltine are, apparently

agreed on 85p and their

idea is to leave it

until Cabinet to

22 October 1982

see if colleagues would

wish to propose a

higher increase.

MH 25/10

Treasury Chambers, Parliament Street, SW1P 3AG

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

Dear Secretary of State

PUBLIC EXPENDITURE SURVEY : DOE PROGRAMMES

I understand that all the loose ends on housing have now been settled. I am writing, therefore, to confirm the agreements we reached in our bilaterals and which form the basis of the figures I will be putting to Cabinet.

On water and Other Environmental Services, the record of our bilateral on 30 September sets out the figures and the terms of our agreement. And I have written separately about the PSA.

On housing, the position is more complicated as the baseline figure has to be adjusted to take account of other factors including changes in interest rates and the level of expected surpluses. The precise baseline figures have still to be settled but the assumptions on which they are to be calculated are:

- (i) that the baseline capital expenditure figure of £1786 million should be increased by £50 million to £1836 million.
- (ii) that an additional allowance of £70 million should be made for management and maintenance expenditure which local authorities will incur in 1983-84; but no allowance should be made for the expenditure in the aggregate of central government housing subsidy, block grant, or local authority expenditure targets.
- (iii) that provision for net capital receipts should be increased by £350 million to £1105 million.

Taken together with a figure of 85p for rent increases, these assumptions produce a baseline total of about £2800 million. Our officials are agreed that this figure is realistic although they recognise that the current expenditure element may change slightly when final calculations are made.

The figures for the later years also need to be settled quickly. I believe this is best left to our officials in the first instance.

x I have seen, and we have discussed, your letter of 20 October. On rents, you agreed not to proceed with an announcement of any increase in advance of the announcement of other Survey decisions. I should add that there is no disagreement between us that your preference for an increase of .85p instead of £1.50 would not have any net public expenditure effect and I will report this to Cabinet in the context of my general report on public expenditure. As for capital receipts, I am, of course, willing to consider any fresh evidence but I must say frankly that I will find it very hard to accept that any further change should be made to the assumptions we agreed at the bilateral.

I am copying this letter to the Prime Minister, George Younger, Nicholas Edwards, John Biffen and Michael Jopling.

Yours sincerely

J.G. Greig

Jr. LEON BRITTAN

[Approved by the Chief Secretary
and signed in his absence]

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