

PRIME MINISTER |

COUNCILLOR PAUL BERESFORD AND THE WANDSWORTH PROBLEM

You may recall that Councillor Beresford approached you at the recent CPS meeting to reiterate his concerns about the impact of the new local authority capital regime on Wandsworth. You had had earlier correspondence with him about this, and had asked DOE Ministers to get in touch with him.

Since we had heard nothing from them I have chased DOE for a progress report. That is now provided in the letter of 8 May from Nick Ridley's office (Flag A). This summarises the problems and promises further consideration of them, but suggests that DOE are unlikely to come up with any radical changes.

The Policy Unit have also looked into this. John Mills' note (Flag B) provides a very helpful commentary on the problems, and gives a suggested way forward (see pages 6-7). John recommends that you urge DOE (and other Ministers concerned) to make every effort to ease Wandsworth's problems, in particular to explore allowing inner cities' authorities to use a bigger proportion of their housing receipts on new spending and the possibility of taking into account authorities' track record on asset disposals when credit approvals are made.

John's note also explains that none of these ideas is without its difficulties. Although I assume you will want to see what can be done to help Wandsworth, it will be important to avoid undermining on a national basis the key objectives of the new local authority capital regime which were agreed last year in E(LF). Equally it will be important to avoid improving Wandsworth's position at undue cost for other areas and boroughs: this may apply particularly to the community charge point, on which you have separate correspondence from Shirley Porter complaining about how high Westminster's community

charge will be relative to Wandsworth! This underlines the desirability in John's last suggestion of asking for a note on the community charge aspects comparing the position with other London boroughs.

Content for me to minute out in the terms John Mills suggests, emphasising the importance of co-ordination with the Treasury and DTI?

Paul

(PAUL GRAY)

12 May 1989

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Yes -

*Guidance by John Mills
minutes a 60:40
ratio would be
reasonable with help
very considerably with
debt-reduction while
leaving something for
rehabilitation of old properties
not*



cc J.M. 11/6
PPS with PG on SL
RPS
A
2 MARSHAM STREET
LONDON SW1P 3EB

01-276 3000

My ref:

Your ref:

Paul Gray Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

8 May 1989

Dear Paul

CORRESPONDENCE WITH COUNCILLOR PAUL BERESFORD

We spoke about the letter from Councillor Beresford to which the Prime Minister sent a holding reply on 16 March. Ministers here have since been considering the point raised by Councillor Beresford. I apologise for the delay in contacting him; Mr Gummer has now had a word with him.

Councillor Beresford has two main concerns. First, that the new capital finance system will reduce the amount Wandsworth can spend from their capital receipts at their own discretion. Secondly, that the new financial regime for local authority housing will restrict Wandsworth's use of the interest earned from their housing capital receipts to hold down the community charge. Before writing to the Prime Minister he discussed these issues with my Secretary of State and Mr Trippier.

The difficulty is that Wandsworth have taken full advantage of the weaknesses of the present capital and housing finance system which permit local authorities to spend according to their priorities rather than ours and about which Ministers receive frequent representations from authorities of all political colours. If our new systems are to tackle these weaknesses then it is inevitable that, to some extent, Wandsworth's freedom of action will be contained.

On capital, the present control system has been distorted by growing spending power from accumulated capital receipts. A major reason for this growth is that receipts can in effect be used twice, once to repay debt or finance certain capital expenditure that is not controlled directly and then again to justify an increase in an authority's controlled spending limit. The new

system will allow receipts to be used once only. Part will be set aside to reduce the authority's indebtedness and part will be available for additional capital spending. The setting aside of some receipts to reduce indebtedness has two advantages. First it reduces the considerable burden for local authorities of servicing their debt, which nationally costs £6 billion a year. Secondly the fact that not all receipts will be available for additional spending will enable the level of credit approvals issued by the Government to be higher than would otherwise be the case. This will enable Ministers to target resources more effectively on needs, including the special needs of inner cities and homelessness. That is a major objective of the new capital system.

On housing, Wandsworth have also benefited from the present system. They have been able to transfer to the general rate fund surpluses from their Housing Revenue Account. These surpluses have in part been built up with the help of Exchequer support through Main Housing subsidy. They have been added to by further Exchequer support for housing through the Rate Support Grant. The intention of the new financial regime is to prevent such Exchequer support, which is intended for housing purposes, being used to subsidise the community charge payer. The change will help accountability since it will clarify the relationship between Wandsworth's spending and their need for those services paid for by the charge payer. Again it is difficult to help Wandsworth substantially without undermining a fundamental objective of the new system.

The main point on which Wandsworth seek movement is the proportion of receipts that has to be set aside for debt redemption. The Local Government and Housing Bill provides that this should be 75% for council house sales and 50% for other receipts. Councillor Beresford accepts the need for such rates nationally but suggests reducing them for inner city authorities. My Secretary of State feels it would be difficult to justify relaxing the debt redemption provisions for the authorities with the greatest debt. Wandsworth have debt of £2240 per adult, lower than the Inner London average of £3690 but double the national average of £1130.

Having said that, my Secretary of State agrees that Wandsworth's record on asset sales and the changes they have brought about in the estates is impressive. He is keen to do what he can to mitigate the effect on them of the new systems provided that the main objectives of these systems are not undermined. Ministers here are looking at ways of ensuring that, in operating the new capital finance system, they will be able to take full account of local authorities' track record in realising assets and their efficiency in making good use of resources, when credit approvals are distributed.

On the revenue side, the benefit of the interest earned on any of the housing capital receipts available for spending which are not in fact spent will be transferred to the general fund. Wandsworth will thus continue to be able to use some of this housing surplus for the benefit of the community charge payers. We are also looking at the rules governing the transition to the new financial regime and have identified at least one point on which Wandsworth and other authorities in a similar position can be assisted without doing violence to our basic objective.

Decision on some of these major distributional aspects of the new systems are needed shortly. When they have been made, it may prove possible to offer some help to Wandsworth in the ways outlined above, either generally or on a transitional basis. But my Secretary of State considers it would be dangerous to settle these matters before then in the interests of one authority. He will also want to discuss any decisions with the Chief Secretary (whom Councillor Beresford has also approached) and Ministers in other spending Departments.

I hope this explains why my Secretary of State has not been in touch with Councillor Beresford before now. When he and his colleagues have taken the appropriate decisions on the distributional aspects of the new system we shall consider urgently their impact on Wandsworth and whether any help at the margin would be appropriate. And before then, we shall keep Councillor Beresford in touch with progress.

I am sending a copy of this letter to Carys Evans in the Chief Secretary's Office.



R BRIGHT
Private Secretary

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 May 1989

*File PA
C. V. Wintlingdale
QR TO KEEP*

Dear Roger,

CORRESPONDENCE WITH COUNCILLOR PAUL BERESFORD

Thank you for your letter of 8 May, which the Prime Minister has seen.

The Prime Minister thinks that efforts should be made to try to avoid the difficulties Councillor Beresford has identified. She would therefore be grateful for an assessment of his arguments for a different debt redemption ratio for housing receipts in relation to inner cities policy; she wonders, for example, whether a 60/40 ratio rather than 75/25 might be appropriate for inner city authorities, which would still help very considerably with debt redemption while leaving something more for refurbishment of old properties. She would also be grateful for further information on the possibility of taking into account authorities' track record on asset disposal in the distribution of credit approvals, and the extent to which this would ease Wandsworth's concern. Finally, she would be grateful for a note on the community charge aspects raised by Councillor Beresford, including the likely comparison between Wandsworth's charge and those of other London boroughs.

BR/

The Prime Minister would be grateful if your Secretary of State could co-ordinate his response with the Treasury and Department of Trade and Industry; I am therefore copying this letter to Carys Evans (Chief Secretary's Office) and John Alty (Chancellor of the Duchy of Lancaster's Office).

Paul Gray

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment.

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PAUL GRAY

11 May 1989

cc John Whittingdale

WANDSWORTH: LOCAL GOVERNMENT AND HOUSING BILL

Beresford's essential point is that the new capital control regime will be a political own goal for the Government in the inner cities, and especially inner London, because

- it will undermine what Wandsworth is doing to refurbish and sell 'difficult' council housing (and improve the environment and reduce crime and litter on estates in the process);
- it will undermine any chance of a similar process in inner cities generally just when several authorities, such as Bradford and some Labour ones in London, are beginning to realise the benefits of a Wandsworth-type approach to improving their estates;
- it will force up Wandsworth's Community Charge through restricting use of its housing revenue surplus for general purposes, and thus weaken the crucial association in people's minds between low community charges and well run Conservative-controlled authorities.

He is pleading for Wandsworth not to be penalised for vigorous pursuit of Government policy, and warning of the political consequences if it is.

Wandsworth has pursued an aggressive policy of council house sales. It has used the receipts to improve poorer stock and thus promote further sales of flats regarded before as totally unsaleable. It has already achieved owner-occupation rates of 25%-55% in its tower blocks which has no parallel

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in the rest of inner London. Significant improvements on estates have sharply reduced crime and made a big impact on litter and graffiti. Through good management a surplus on the housing revenue account has been built up and used to keep the rates down. The beneficial impact of all this is readily visible, and in very sharp contrast with the situation in adjacent Lambeth.

Under the new regime, 75% of housing capital receipts will have to be used to repay debt, thus reducing what is available for refurbishment and in turn jeopardising sales. The Treasury estimates that if the new system applied this year, Wandsworth's spending power from receipts would have fallen from £90 million to £40 million. Wandsworth itself estimates (although the Treasury thinks it's rather on the high side) that ring-fencing the Housing Revenue Account, a policy designed to stop subsidy of housing by community charge payers, could add £90 to its community charge. Hence the seriousness of the problem in Beresford's eyes, as he looks ahead to defending his very small majority in next year's elections.

Moreover, under the new system of credit approvals, authorities with high receipts will, in broad terms, receive less from central government and vice versa. As Beresford says, this will not only disadvantage those like Wandsworth which have been disposing of assets in line with Government policy, but will also remove any real incentive from Labour authorities to start disposing of them in a methodical way.

The new regime is a blunt instrument to bring under control the overall problem of high unused local authority receipts. Beresford recognises this, but is urging Ministers to focus on the political consequences, especially in inner London where there remains so much housing stock in poor condition on 'difficult' estates. His original letter of 22 February to the Prime Minister brings this out.

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What he chiefly seeks is for inner city authorities like Wandsworth to be able to retain a higher proportion of housing receipts than the 25 per cent as now proposed in the Bill.

It is conceded by the Treasury and DOE that the new regime will put a brake on what Wandsworth has been doing, and inhibit other authorities (like Bradford) following suit. The issue for decision is whether the political consequences of this warrant a rethink: either

- a change in the debt redemption ratio for housing receipts from 75:25 to, say, 60:40 for inner city authorities; or
- a method of allocating credit approvals which takes specific account of track records on asset disposal.

A change in the 75:25 debt redemption ratio for inner city authorities

The arguments against any change:

- the aim of the policy is to reduce local authority debt. Inner city authorities have by far the highest debt (Wandsworth is double the national average, but 60% of the inner London average);
- an increase in potential local authority spending power would increase General Government Expenditure (GGE);
- a change would upset carefully laid plans which have now gone through committee stage.

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The arguments for a change to, say, 60:40

- it would go some way to enabling Wandsworth to maintain its programme;
- it would somewhat increase the incentive to inner city authorities to refurbish estates, thus increasing sales potential, and to use sale receipts to carry forward the process;
- it would still leave a substantial amount (60% of receipts) for debt redemption and the impact of GGE would be fairly marginal;
- it would tie in with inner city policy and the objectives of reduced crime and litter through the improvement of poorer housing estates.
- it is not too late to amend the Bill.

A changed method of allocating credit approvals

The Bill sets out the general principles to be followed but DOE have not yet settled the exact method. But basically, the higher the receipts the less the credit approval. It ought to be possible to ensure that the Secretary of State had to take into account as a matter of policy either the unsold assets of an authority or its track record in disposing of assets in order to favour those which were disposing and encourage those which were not to start. Such an approach is hinted at in DOE's letter (bottom of page 2) but there is no indication of any commitment to it. It warrants exploration. It is doubtful it could be as attractive to Wandsworth as a change in the ratio, but it could provide a way forward.

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Impact on Wandsworth Community Charge

The Treasury is sure that Beresford has overstated this problem. But it is nevertheless a real one. Ring-fencing the Housing Revenue Account (HRA) is designed to stop profligate authorities subsidising tenants from the rates. In Wandsworth it has gone the other way: good management of the HRA has enabled them to use it to subsidise the rates. Thus next year's transition to the community charge will be the more painful because of a low rates base and the removal of the subsidy.

There is little room for movement on this, although the Treasury's detailed points may abate Beresford's concern a little. But it will still be another pressure point next year in Wandsworth, which makes it all the more important actively to look for solutions to Beresford's main problems.

Conclusion

There is a sound overall basis to the new capital control regime: control over the high level of local authority capital receipts and the reduction of debt. These changes go hand in hand with the change on the revenue side to the new system of credit approvals.

But the policy is a blunt instrument and needs sharper edges to avoid perverse results. Curtailing Wandsworth's vigorous pursuit of Government policy would certainly be perverse and could have damaging political consequences. It is not enough to say there is no option to Wandsworth's freedom of action being curtailed. A lot of hopes ride high on Wandsworth.

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The scale of action to be taken depends on the political assessment. With no change of approach by DOE and the Treasury, it will be possible to give Beresford a little comfort on the community charge and other points of detail. Even with an effort to be flexible the DOE's letter (which is couched in very cautious language) only envisages help at the very margin. But to move towards any meaningful impact on the main problem of the level of useable capital receipts requires a creative look at the system now being set up to see how it can be better moulded to meet political and policy needs in inner London if not all the inner cities. At the very least some more questioning is required.

Recommendations

I suggest that the Prime Minister

- indicates that an adverse impact on Wandsworth would be perverse and intrinsically unsatisfactory, and that all effort should be made to avoid it;
- asks for an assessment of Beresford's arguments for a better debt redemption ratio for housing receipts in relation to inner cities policy generally;
- seeks further information on DOE's hint about taking track record on asset-disposal into account in distributing credit approvals, and whether this would really meet Wandsworth's concern;
- requests a note on the community charge aspects raised by Beresford, particularly regarding the likely comparison between Wandsworth's charge and those of other London boroughs.

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The above should be coordinated as necessary with John Major and Tony Newton.

In the meantime Beresford should be seen by Nicholas Ridley or John Gummer and told frankly that his political concerns are on board and the Government will do all it properly can to mitigate them. Any misconceptions he may have on the community charge and other points of detail can also be cleared up. This will keep the door open while options are further explored on the presumption of help not hindrance to Wandsworth.

John Mills

JOHN MILLS

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Councillor Paul BERESFORD

S/S

✓ JW - to see
GR.
2-L.F. - M B.F.
a S/S.

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PRIME MINISTER

WANDSWORTH AND CAPITAL RECEIPTS

RCG
2/5

John Whittingdale tells me that Councillor Paul Beresford had a word with you last evening about his worries on the new local authority capital regime.

You will recall that you wrote to him last month saying that Nick Ridley would be getting in touch with him for a discussion. I have checked the latest position with DOE, and they will be letting us have a progress report next week.

I have also had a word with John Major's office to check the position on Paul Beresford's exchanges with him. I gather that John Major is waiting for a further note from Beresford, but I have suggested that John Major should liaise with DOE Ministers.

RCG

mt.

P. GRAY
28 APRIL 1989

MRMAQD