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10 DOWNING STREET

From the Private Secretary

19 February 1985

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Public Expenditure and a Fiscal Stance

The Prime Minister has seen the Chief Secretary's minute of 17 February and was content that guidance should be issued to departments on the kind of assets sales which should be encouraged and those which should be avoided. She has noted the terms in which the Chief Secretary proposes to reply to Mr Heddle's PQ.

ANDREW TURNBULL

Richard Broadbent, Esq.,
Chief Secretary's Office

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Assets Sales and Public Expenditure

The Chief Secretary is receiving a number of suggestions for sales of assets which would permit higher public expenditure. In 1982, proposals for so-called "private finance" also appeared frequently, and Leon Brittan, when Chief Secretary, set out two tests for such proposals to be accepted:

- (i) What benefits are achieved in terms of the management and use of real assets?
- (ii) Do such benefits outweigh any additional costs, for example, from higher financing charges?

Assessed against these two criteria, sales of council houses and the privatisation of BT, etc., have been approved, but sale and lease-back proposals, the Buzby Bond, and toll-financed motorways have been rejected.

The Treasury wish to re-issue guidance, but you should be aware of one implication of this. John Heddle asked you in the House about the sale of local authority mortgages. You prefaced your answer by "Yes, I believe that my rt. hon. Friend is right". It is unlikely, however, that Mr. Heddle's scheme would pass the Treasury tests. All that would happen is that local authorities would have more money to spend while still retaining the same housing stock. Indeed, they would be able to expand their stock of houses.

Agree therefore to re-issue of the Treasury's guidance?

AS

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