

PO-CH/NL/0235

PART A

Alex
Lawson

PART A

SECRET

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PO -CH /NL/0235



PART A

CHANCELLOR'S PAPERS ON
THE HOUSING MARKET

PO -CH /NL/0235

PART A

Begin: 30/11/87

Ends: 29/4/88 (CONTINUED)

DD: 25 years

20/9/95

A nation of inheritors

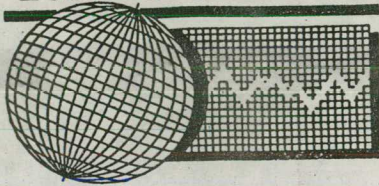
Ch. A copy of the Morgan Grenfell study is attached. 2/12

Nigel Lawson's "nation of inheritors" — his latest characterisation of the "property-owning democracy" — is already emerging. The effect of the postwar scramble into owner-occupation is beginning to plump the pockets of postwar babies; the resulting interplay of wealth and demography has begun to attract the interest of the financial services industry and — none too soon — of policy makers too. For it has profound implications for tax and social policy-makers, both of whom find difficulty in exchanging old problems for new.

Morgan Grenfell has recently published a neat summary of the initial effects. Very simply, the proportion of owner-occupiers among the elderly has risen from about a quarter of households at the end of the Second World War to about 60 per cent today; by the end of the century, it will probably be up to two-thirds.

Morgan Grenfell's economists calculate that — at today's average house price of £44,000 — this means that property inheritance is now worth an annual £6.8bn (compared with only £703m in 1970); and by 2000 it will have risen to £8.9bn, even if there is no further rise in house prices. Indeed, if house prices rise at historic rates, the annual flow could be as large as £24.3bn.

ECONOMIC OUTLOOK



form its existing tax on bequests.

While it makes no sense to tax wealth according to the amount owned by the now-dead previous owner, it would make real sense to tax it according to the amount inherited by individual recipients. Such a change (which would transform the remains of Capital Transfer Tax into a genuine Inheritance Tax) would itself stimulate the distribution of wealth, if only by encouraging it to skip a generation.

But the most intriguing question is what the inheritors do with these windfalls. They could swap their parents' south coast bungalow for a flat on the Costa del Sol; or they could retain it, and rent it; or pass it on to their children to finance the third generation's first home. In each case, the family retains its same total equity in housing.

But there are two other possibilities. One is that the inheriting generation — typically in its 50s — sells the property and uses the proceeds to reduce its own liabilities, in particular its own mortgages; the other is that it uses the proceeds to acquire more financial assets.

In the former case, the inheritor's net equity in housing rises, though not by the full value of the inherited property; in the second, its net equity in housing does not rise at all, and inheritance contributes to the recent pattern of a simultaneous build-up in both the assets and the liabilities of the personal sector. The third generation, which will buy the disposed-of properties, takes out a mortgage to finance the purchase; the second generation, which makes the sale, meanwhile builds up its assets.

The choice is heavily influenced by tax and legal systems. The Morgan Grenfell economists reckon the last course is the most probable, because the rental property market is depressed, and the tax system militates against the paying-off of a mortgage and in favour of particular forms of financial investment.

They may well underestimate the desire to own more property, in hopes of capital appreciation. Admittedly, eight years of Thatcherism have done surprisingly little to revive the rented property market, thus keeping the income stream for would-be private landlords still discouragingly low; while, at the same time,

a combination of the long bull market, high real interest rates, and the proliferation of tax advantages on various forms of financial asset certainly increased the pull the other way.

It is arguable that this pull may now slacken. The bull market, after all, suffered Black Monday and worse; the first real fear of world recession for half a decade may lead to lower real interest rates. On the other hand, recessions do little for the property market; while we continue to have, in Britain, a government determined to encourage the private acquisition of financial assets.

Sufficient savings

The oft-expressed view of Government ministers that private share ownership is important to the health of the economy is much less fundamental than the need to ensure that the next generation of retired people builds up sufficient savings to see them through their longer lives. And for that purpose, indirect share ownership (through the financial institutions) is quite as effective as direct possession.

The phenomenon of widespread inheritance may well, in the short term, have contributed to the demand for privatisation issues; in the longer term, it is likely to be channelled into more traditional forms of savings. Morgan Grenfell's economists point out that the Government's pet scheme for 'AVCs' — the enlargement of tax advantages attached to company pension schemes to encompass additional voluntary contributions by members — is, however, not tailor-made for inheritors; the likes of single-premium policies may be nearer the mark. For that matter, relatively large holdings of liquid assets — bank or building society interest-bearing deposits — may also be the result.

Makers of tax policy, however, have to decide how long it makes sense to use the system to stimulate the simultaneous build-up of both liabilities and assets by the personal sector. The fact that its liabilities had also increased has frequently been advanced as a reason not to worry too much about the growth of liquid assets, but this has been a headache for monetary policy. It makes less and less sense to tax-advantage borrowing for house purchase. But at a time when one large group of society is beginning to enjoy the fruits of two generations of such tax advantage, it is politically harder than ever to refuse the would-be first time house buyer admission to the ranks of privilege.

Sara Hogg

Handwritten notes in red ink:
I should be quite happy to see the study of the Morgan Grenfell study is attached. 2/12
I should be quite happy to see the study of the Morgan Grenfell study is attached. 2/12
I should be quite happy to see the study of the Morgan Grenfell study is attached. 2/12

People living longer

One word of caution: it may, in practice, be channelled out of the personal sector to a greater extent than Morgan Grenfell assumes, in the form of annuity policies which allow the elderly to sell their property to institutions without vacating it. The number of very old people is increasing fast; by the end of the century there will be half a million more households headed by an over-75 than there are today — an increase of nearly a fifth; the number of over-85s will probably have trebled. Few of these people expected to live so long; while the steady growth of occupational pensions and high real interest rates have increased the income of the pensioner population by over 2 per cent a year, the costs of extreme old age are heavy.

However, let us assume for the moment that many of them die still rich in assets. The authors argue that this will widen the distribution of wealth. This is only true up to a point; while more people will receive a substantial inheritance, the gap between second-generation owner-occupiers and council-tenant families will be sharpened. Nevertheless, the wider experience of inheritance should stimulate the Government to re-

8/1

UNCLASSIFIED



FROM: J M G TAYLOR
DATE: 3 December 1987

4608

*JMG
MR GRICE
IS DEALING HOPE
TO HAVE SOMETHING
WITHIN BY MONDAY
12/12*

SIR T BURNS

Stephan King

cc Miss C Evans (without enclosure)

*26/1
26/1*

MORGAN GRENFELL: STUDY OF HOUSING INHERITANCE AND WEALTH

... I attach a copy of a recent study of Housing Inheritance and Wealth, published by Morgan Grenfell. The Chancellor would be grateful if one of your people could have a look at this and let him have any observations.

*His secretary
will check history
Tom 13/2*

Red chand

75

BF 8/2

J M G TAYLOR

BF 11/2

BF 15/2

*at 22/2
Sumers!
25/2*

W Taylor
As requested
Cairns Evans 2/12

Press Release

EMBARGOED UNTIL 17.00 HRS, THURSDAY 26TH NOVEMBER, 1987

HOUSING INHERITANCE AND WEALTH

In the first serious report to analyse the implications of Housing Inheritance and Wealth in Britain, Morgan Grenfell today reveals:

- The major extension of owner occupation took place in the post-war period - it now accounts for around 60 per cent of the housing stock.
- Property inheritance flows are now equivalent to almost 3 per cent of household disposable income - as a financial flow they are broadly comparable with the personal sector's entire financial surplus.
- Owner-occupied inheritances are forecast to increase to 160,000 per year by 1990, 178,000 by 1995 and 202,000 by the year 2000.
- The annual current values of flows from the sale of inherited owner-occupied properties would be approximately £6.8 billion in 1987, £8.9 billion in 1990, £14.6 billion in 1995, rising to £24.3 billion by the turn of the century.
- Average inheritance is estimated at £17,500 per household which is more than 50 per cent higher than average household disposable income.
- If householders choose to sell inherited property this will reduce equity in housing and stimulate demand for financial assets, i.e. reverse the shift into physical assets. It will also depress the relative price of housing with respect to financial assets.
- The implications for house prices, however, are complex and provide scope for further research.
- The uses to which inherited wealth will be put are likely to represent a compromise between relative tax benefits, prospective rates of return and a desire for liquid assets.
- Additional pension plans or traditional life policies are unlikely to benefit to a large extent from these flows.
- Bank and building society deposits should rise. Long term investments like single premium life policies and, probably, equities and unit trusts are also likely to benefit.
- The process of equity withdrawal from the housing market will typically take the form of people borrowing to buy inherited houses to which no mortgage had previously been attached. This boosts personal sector borrowing from banks and building societies.

- A monetary policy which resists this process, for example by attempting to restrict the growth in credit demand or broad money to the growth in nominal incomes, is likely to be deflationary, depress the growth in housing and other asset prices and ultimately, be unsuccessful.
- The rise in both sides of the personal sector's balance sheet is akin to a shift in the velocity of money, which the Government ought to accommodate.

Press Enquiries:

Joanne Curley

Morgan Grenfell & Co. Limited
Telephone: 01-826 7460

PERSONAL AND CONFIDENTIAL

FROM: A G TYRIE

DATE: 15 JANUARY 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Cropper
Mr Call

Re the 1st pt, with the 1st agree, work up a proposal to enable LAs to sell planning permission. While there are disadvantages (a) lead to more planning controls

UNEMPLOYMENT: POLICY AND PRESENTATION

I saw Mr Odling-Smee's paper on unemployment. Some fairly random thoughts.

First, of the micro-economic measures listed in paragraph 46 ff I think housing policy sticks out a mile as the trickiest but also the most important area on which to act at an early stage in this Parliament. If we could relax planning restrictions a little and build some more houses we would reduce the pressure on house prices and the knock-on effect for wages as well as improving employment prospects.

Long & quieten Mr. D. (b) subject to Mr. D. DOTS in appn. (cont. @ end)

I don't think we will get a better opportunity to foist more houses on reluctant shires than now. The disarray of the centre parties makes life a lot easier. Our fear all along has been that some of our 'green support' in the South and West would defect to the 'Alliance'. We are less vulnerable to that at the moment than for a long time. I gather DoE are already setting in hand what they describe in-house as 'the rape of Berkshire'! Could we do anything to give more power to Mr Ridley's elbow?

Secondly, this would also be a good time to scrutinise even more carefully the employment 'schemes', mostly devised by Lord Young, to reduce the headline total. We had a good crack at these schemes during the last PESC round but the fall in unemployment has accelerated since Mr Fowler settled. In view of the further fall in unemployment there would be a good case for considering a further reduction. What about getting rid of the remainder of the old JTS?

Some delay with the support arguments to Sr

look @ v. low on the next PESC

Thirdly, there might just be some advantage in getting some academic debate going about the level to which unemployment might reasonably

I see the great advantage in this, given the value of such a debate

be expected to fall. Although we cannot initiate it directly, such a debate could help protect our flank when falls in unemployment slow down. This is two-edged. It could stimulate an unwelcome debate about the inadequacy of macro-economic policy for dealing with unemployment, 'not enough demand' etc. (Although the protagonists of the insufficient demand line have a pretty weak case at the moment.) You may feel that the most we can do is neutralise the debate on unemployment and that stirring it up, even now that we have some cards to play, would lead to a debate which, with the public as the jury, we couldn't win.

AGT.

A G TYRIE

(c) govt LAs & low source
low frame, then ~~the~~
reduce to steady C/C, &
(d) answer to CBI's complaint Nat,
with no nationalisation of bus
rate, LAs will be low bus
development with low bus
My view is govt T's 2 & 3
pts are in the margin.

pmp
PERSONAL AND CONFIDENTIAL~~X please~~
FROM: A C S ALLAN
DATE: 18 January 1988

MR TYRIE

cc: PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Cropper
Mr Call**UNEMPLOYMENT: POLICY AND PRESENTATION**

The Chancellor was grateful for your minute of 15 January.

2. The Chancellor agrees with your first point (on relaxing planning restrictions). He has asked that officials should work up a proposal to enable Local Authorities to sell planning permission. While there are disadvantages (as in every proposal) this would

- (a) lead to more planning consents being given, and quicker;
- (b) reduce the number of proposals which have to be decided by DOE on appeal;
- (c) give Local Authorities a new source of local finance, thus reducing the Community Charge; and
- (d) answer the CBI's complaint that, with the nationalisation of the business rate, Local Authorities will no longer have any incentive to encourage business development within their borders.

3. I am sending a separate minute to LG commissioning this.

4. On your second point, that now would be a good time to scrutinize even more closely the employment "schemes", the Chancellor feels that this is something which (along with the new regional support policy) should be looked at very hard in the next PES round.



5. He sees no great advantage in your third proposal, for getting some academic debate going, given the likely value of such a debate.

A handwritten signature in black ink, appearing to read "ACSA".

A C S ALLAN

CONFIDENTIAL



FROM: A C S ALLAN

DATE: 20 JANUARY 1988

MR INSTONE

cc PS/Chief Secretary
 PS/Financial Secretary
 Sir P Middleton
 Sir T Burns
 Mr Anson
 Mr Kemp
 Mr Monck
 Mr Hawtin
 Mr Odling-Smee
 Mr Parsonage
 Mr Tyrie

HOUSING POLICY: PLANNING RESTRICTIONS

The Chancellor would be grateful for advice on how we might enable local authorities to sell planning permission. To the extent that this resulted in more houses being built, this would have supply side advantages by reducing the pressure on house prices and the knock-on effects on wages. And while there are disadvantages (as in every proposal) it should:

- (i) lead to more planning consents being given, and quicker;
- (ii) reduce the number of planning cases which have to be decided by DOE on appeal;
- (iii) give local authorities a new source of local finance, thus reducing the community charge (though this does carry the risk of allowing local authorities to spend more); and
- (iv) answer the CBI's complaint that, with the nationalisation of the business rate, local authorities will no longer have any incentive to encourage business development within their borders.

2. He would be grateful if you could prepare a note (in consultation with Mr Tyrie), after which the Chancellor may want to approach Mr Ridley.

ACSA

A C S ALLAN

*chased 8/2 -**"next few days"**BF 15/2**pse chase and BF 15/2*

PERSONAL AND CONFIDENTIAL

BF 5 m 10/2

FROM: A G TYRIE

DATE: 29 JANUARY 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Paymaster General
Mr Call
Mr Cropper
Mr Instone
Mr Monck

Thanks.
Prayer.

HOUSING

Housing and house prices are now major impediments to many of the Government's supply side objectives, restricting growth and contributing to unemployment. On the planning side I wonder whether DOE should be asked to put together a fairly comprehensive package of measures. The Government doesn't seem to have a well thought out strategy. On the other hand, for presentational purposes outside Whitehall, I think we will achieve much more by stealth than by announcing bold initiatives.

2. To find out what DoE are doing about it I had a long chat this week with John Delafons, the Deputy Secretary responsible for planning in the DOE, whom I got to know during my brief spell there.

3. "True blue Delafons", as Patrick and I used to call him, has been generating some ideas to secure more housing and reduce the upward pressure on house prices. It seems that his Ministers are the laggards!

4. Among the ideas he has put into circulation are:-

- (i) An increase in village housing and consideration of the construction of new villages. This was put to

the Prime Minister in a discussion paper which was supported by most Cabinet colleagues but sat upon by her. Apparently, briefed by the Policy Unit, she saw it as an assault on the Green Belt, which it need not be. Mr Ridley is intending to float the idea again, in a slightly amended form.

✓ (ii) "The one into two scheme". At present the subdivision of a residential property into two separate dwellings requires planning permission even if the external appearance of the house is unaltered. Mr Delafons has suggested to DOE Ministers that the requirement for planning permission to convert one dwelling into two be removed where there is no alteration to the external appearance of the property. Apparently Mr Waldegrave has sat on this idea.

I think this is a good wheeze, particularly for London. It would, for example, enable pensioners to convert half their home and realise the value of the other half to supplement their pension. It would increase the overall supply of dwellings, and particularly small dwellings, of which there is now an acute shortage. And it would greatly ease the practical obstacles faced by developers in obtaining planning permission.

WNR/1m (iii) The structure plans. By coincidence almost every (5 year) structure plan in the South-East is coming before Ministers for approval this year. The weakness of the Alliance makes this a golden opportunity for the Environment

Secretary to bump up provision in the structure plans. As you know, Mr Ridley already has the 'rape of Berkshire' in hand. He is also working on an administrative reform of structure plan system, devolving responsibility to the Districts.

(iv) Inner city development. Mr Delafons has identified several large chunks of mostly publicly owned and unused land in East London and suggested that Mr Ridley launch a major initiative to develop it, concentrating on first time buyer properties. I will, together with Mr Instone, keep an eye on this. I confidently predict a slip 'twixt cup and lip.

5. As you know, I have also been peddling a few ideas for some time:

(v) Confiscation of empty dwellings from local authorities. If local authorities do not sell empty dwellings or cannot provide a very good reason for hanging on to them I cannot see why we do not just transfer them to the Secretary of State for the Environment for disposal.

(vi) Valuation of flats under the Right to Buy. As you know, council flats are probably overvalued for Right to Buy purposes. I understand that Daniel Instone will shortly be giving a progress report on my suggestion that guidelines to District Valuers be amended to secure low valuations.

(vii) Building and safety regulations. Despite some tidying up these are still far too restrictive. The market should be allowed to decide many of the matters at present covered by building regulations (window size to floor area etc). As any builder will tell you, even where commonsense lies behind the regulation, pettiness in its implementation can make it a substantial obstacle to development.

6. A note from Mr Taylor mentioned another idea:

(viii) Selling planning permission. This would have the advantage of making planning gain more transparent and of converting it into cash. It might also spur local authorities to grant planning permission more readily.

I have looked at this before and am less keen about it than I used to be. In economic terms planning permission would probably become another form of development tax. Not only have these usually been distortive, they have inevitably led to higher prices for the consumer. My guess would be that the cost of planning permission would be passed on in higher house/commercial prices - the opposite of what we want.

We might be better off going in the opposite direction and severely curtailing planning gain, limiting it to 'gain' directly associated with the site or project in question.

But on all this I stand to be corrected by Instone and co., who are working on it.

7. If you think something should be done we have three options:

(i) We could plug away in a piecemeal fashion at parts of the planning system, as now;

(ii) We could get the DoE to produce a fairly comprehensive paper setting out how they intend to tackle the problem, particularly in the South East;

(iii) The Treasury could put in its own paper.

8. I recommend the second option. It would force DoE Ministers to come up with some ideas. There is, of course, always the risk that it would leak. We are ever vulnerable to our own green welly brigade.

For Prayers?

AGT

A G TYRIE

CONFIDENTIAL



FROM: MARK CALL
DATE: 15 FEBRUARY 1988

CHANCELLOR'S MORNING MEETING16TH MEETINGNOTE FOR THE RECORD

Present: Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Lennox-Boyd, MP
Mr Forman, MP
Mr Cropper
Mr Tyrrie
Mr Call

1. NHS: HEALTH & SOCIAL SERVICES COMMITTEE

Mr Trevor Clay of the RCN had attended the Health and Social Services Committee, where he argued that the Government should meet the RCN's demands to show that extremism was not effective. Mr Lennox-Boyd said the arguments had appealed to some of those present, and would be likely to reinforce their increased calls for the Government to fund the Nurses and Doctors Review Body awards.

2. NHS: MR MOORE'S SPEECH

The Chancellor was very concerned about remarks attributed to Mr Moore at the weekend, and had requested a transcript of his speech to the YC Conference. This would be likely to dominate Prime Minister's Questions tomorrow, and it was essential to ensure that No.10 were well briefed.

3. NHS: GRIFFITHS' REPORT ON COMMUNITY CARE

The Chief Secretary had seen a copy of the conclusions of the Griffiths' Report, and was concerned that these would not only be very expensive in public expenditure terms, but also politically sensitive. The Report would put increased pressure on Mr Moore to clarify DHSS expenditure priorities. The Chief Secretary would discuss the handling of the Report with Mr Moore.

4. STUDENT LOANS

The Financial Secretary reported that at QL he had pressed hard the case for including student loan legislation in the legislative programme, but that although the strength of the case had been acknowledged, its inclusion was not proposed. The Chancellor agreed that it would be highly desirable to have this included in the programme, noting that it was a Manifesto commitment. Furthermore, because of the long lead time on implementation, legislation would have to be achieved early in the Parliament. It was thought that Mr Baker placed a higher priority on the student loan legislation than on teachers' pay legislation.

5. EC BUDGET DEAL

The Chancellor said that while judged on its merits, last week's agreement was not a good deal for the UK, it was a considerable improvement on the status quo. While it fell far short of our ingoing position, without pressure from the UK, not even this much would have been achieved. Mr Chirac's "explosive expletive" (the etymology of which is below the dignity of this organ to clarify) was also thought to have helped. This would also help with presentation in the House, on the grounds that anything which had upset the French so much was clearly a good thing for Britain.

The Opposition were now saying that the CAP costs the average family £10 per week, and to counter this it would be important to stress that agriculture had a price tag before the CAP. It would also be worth pointing out that Labour in Government had done nothing about agriculture, or the rebate. More difficult to

counter would be criticisms by some Conservative backbenchers. The Paymaster General would attend the Prime Minister's statement to the House on the Agreement this afternoon.

6. FINANCIAL SERVICES ACT

The Financial Secretary said that the number of newspaper articles warning of an impending shambles due to implementation of the FSA, was worrying. The Chancellor believed that the newspapers had greatly exaggerated this, and that with good leadership of the SIB, it would be alright. The most important thing was to get an acceptable replacement for Sir Kenneth Berrill, but no suitable candidate had been found to date.

7. HOUSING

The Chancellor referred to Mr Tyrie's minute of 29 January. He agreed with the proposal made in paragraph 4 ii "the one into two scheme". He felt, however, it would not be wise to take the structure plans head on (paragraph 4 iii). On inner city development (4 iv) the Chancellor agreed there was much unused land, and that this proposal showed promise. The proposal for confiscation of empty dwellings (5.v) should also be looked at. It was noted that there were approximately 20,000 empty local authority dwellings in inner London, and almost 4 times as many in the private sector. Moreover, the PSA Defence Estate had an even higher proportion of empty dwellings. The proposal in paragraph 5 vi on the valuation of flats under the Right to Buy, was going forward. The Chancellor agreed that the current Building and Safety Regulations (paragraph 5 vii) were too restrictive. He agreed that the proposal to allow the selling of planning permission (paragraph 6 viii) should be looked at further. He disagreed with Mr Tyrie's assertion that this would lead to higher house prices. The Chancellor would ask officials to draft a letter to send to Mr Ridley on a personal basis, offering these points as ideas he may wish to consider.

On village housing, the Chief Secretary would discuss with the Chancellor a revised draft of a letter to send to Mr Ridley. While reflecting the Chief Secretary's concerns, this should not unduly discourage Mr Ridley from this initiative.

8. NHS AND THE BUDGET

The Chief Secretary said there were 4 key messages to be put across in the short term: there will be no specific health expenditure measure in the Budget; the PES settlement has already agreed significant increases over the next 2 years; the Review Body will be looking at structure and not just the level of pay; the longer term NHS review being conducted by the Government was primarily concerned with improving patient care, and its outcome should not be prejudged. There were 4 possible mechanisms for getting these messages across: the PEWP debate; PNQs; Treasury Questions; and the Budget. In addition, there was the possibility of using concerted Ministerial speeches; and building a team of selected well-briefed backbenchers. A campaign to stress the interest of consumers would be a useful counter-balance to the currently well voiced interest of producers. It was unlikely that much of this will have significant effect on views within the Opposition, and the Parliamentary task lay in securing wholehearted support on the Government benches.

The Chief Secretary said that despite official advice to the contrary, he still favoured changing the date of the Review Body recommendation for future years. The Chancellor agreed that a further meeting on that issue would be needed.

The Chancellor said that the PEWP debate was assuming a key role, and that if it gets across the right messages on (1) the Review Body, (2) what the Budget is about, and (3) the longer-term NHS review, then the subsequent Budget presentation would be greatly assisted. It would be helpful to distribute to backbenchers a briefing summarising the key points from the PEWP debate. Mr Lennox-Boyd said there was some concern about the length of time to be taken by the NHS review. The Chancellor agreed that it would be most helpful to be able to say in the PEWP debate when the preliminary findings from the review would be available.

Mc
MARK CALL

CONFIDENTIAL

FROM: D R INSTONE

DATE: 19 February 1988

CHANCELLOR

cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Anson
 Mr Byatt
 Mr Phillips
 Mr Monck
 Mr Hawtin
 Mr Spackman
 Mr Parsonage
 Mr Potter
 Mr Betenson Mrs Diggle
 Mr Graydon
 Mrs Holmans
 Mr Tyrie

*Thank! I will
 consult a bill ✓
 Byatt paper
 pol - Budget.*

HOUSING POLICY: PLANNING RESTRICTIONS

Mr Allan's minute of 20 January asks for a note about how we might enable local authorities to sell planning permission.

2. This is by way of an interim reply. A key issue is how far such an arrangement would actually increase supply of land for which planning consent had been given and how far it would simply increase the price of land and so increase costs and house prices. Mr Byatt and Mr Tyrie are looking at this point further; so you may want to defer a final view until they have come back to you on that.

3. However the issue may come up at a meeting of MISC 133 (on deregulation) on Wednesday, for which Mr Ridley is providing a paper on planning. So it may be worth having some interim views now.

4. You will also see from the attached cutting that a rather similar idea was advanced by Mr Graham Mather, of the Institute of Economic Affairs, last December - though he is rather vague on how his proposal would work.

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5. The main considerations on your proposal, as I see it, are as follows. First, the planning system at present is meant to enable a public authority to strike a balance between the direct (sometimes commercial) interest of the applicant and the effects of the proposed development on the wider community. Some of these further effects may have a direct public expenditure cost (eg if the proposal leads to extra schools, drainage etc being needed); some are classic "externalities", like the effects of a development on neighbours' views or enjoyment of the countryside. There is no reason to assume, however, that the price agreed between the local authority and the applicant would reflect all these wider costs, especially the often unquantifiable externalities.

6. Second, the difficulties above might still be a price worth paying if charging for planning permission led to extra land coming available for development, and if this increase in supply more than outweighed the extra costs for developers of having to buy permission. This is what Messrs. Byatt and Tyrrie are looking at in more detail: there seems considerable uncertainty. One would need to have some presumption of a significant increase in supply for the measure not to risk being counter-productive by increasing house prices.

7. Third, even if there was an overall increase in supply of land with planning permission, there could be a change in composition, in that it could increase the proportion of development with high returns (like shopping centres) compared with those with lower returns (like lowish-cost housing). That could of course be argued to be simply the result of the market working better; but it might seem less attractive if that meant an increase in house prices because there was no increase in the supply of housing land.

8. Fourth, one would need to be clear how the extra receipts which the local authority would get would actually be translated into benefits for the community. This isn't so much of a problem if one regards the local authorities as reasonable arbiters of the community interest in their spending decisions. But that

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is clearly an arguable point; and some would certainly be likely to spend the receipts - eg to deal with short-term financial problems - in ways which did not much help those affected by the development.

9. Fifth, although Mr Mather rather skates over this issue, the market between buyer and seller is scarcely a perfect one. Since most applicants for planning permission are not in practice very mobile, there is normally only one seller of the permission (the local authority in the area concerned). There is also one clearly favoured buyer, namely the present owner of the land where permission is being sought. In principle other buyers can come in, since if they are prepared to bid a higher price for the planning permission, that would give the existing owner an incentive to sell or lease the land to them. But the owner may have other reasons for not wanting to do this. All this means the price at which the bargain would be struck - and hence the effects on supply - could vary greatly and unpredictably.

10. Sixth, it makes a lot of difference whether under the proposal the local authority would be able to sell the permission but did not have to, or both could and had to sell (ie could not refuse permission to the highest bidder). The second variant would be more effective in the sense that it would tend to produce a lower price and increase supply more than the first. But it would be very controversial and strongly opposed by local authorities. By contrast the first would be likely to have more effect on price and less on supply; it is also rather closer to what can happen already through "planning gain" (see below), except that payment could be made in cash instead of kind.

11. Seventh, there is some history to all this. The concept of charging for development - though centrally rather than locally - was allowed for in the 1947 Town and Country Planning Act, though subsequently abandoned by the last Churchill administration, as deterring development. But local authorities are still allowed to extract payments in kind from developers in the form of "planning gain" (eg by insisting that a developer allows room for a new road or funds a community hall as part

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of the project etc). This often leads to a good deal of behind the scenes bargaining. DOE have for some years been trying to reduce opportunities for this. Indeed Mr Ridley's latest paper for MISC 133 (extract attached) contains further proposals for limiting opportunities. DOE's argument is that this sort of negotiation deters development and puts up costs. But it is open to the counter argument, on the lines of your own proposal, that it may actually provide local authorities with a greater incentive to grant permission; ie there may be supply benefits outweighing the extra costs. I propose to brief the Economic Secretary at MISC 133 to question Mr Ridley's proposal here and ask for more detail before a final decision is taken.

12. Eighth, there could be some public expenditure costs of the proposals. If developers had to buy planning permission, that should logically include public sector developers too - including nationalised industries. Up to now we have not particularly encouraged payment of "community benefits" by nationalised industries contemplating large scale developments, on grounds of lack of effectiveness on reducing delays to these projects - though nationalised industries are looking fore more freedom here and Mr Ridley will shortly be asking E(A) colleagues to take a more neutral stance (we are briefing the Chief Secretary not to oppose this).

13. Last, even without the proposal there is a partial answer to the CBI's complaint that, with nationalisation of the business rate, local authorities will no longer have any incentive to encourage business development. The answer is that even the present system does not provide significant incentives to local authorities, since "resource equalisation" means that an authority with a large rate base (eg as a result of giving planning permission) receives less Exchequer grant than otherwise; the main exception to this is in the case of those few authorities (such as Westminster and the City) which do not receive RSG.

Conclusion

14. The key question which we are still considering is whether there would be supply benefits which would outweigh extra costs.

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If we think there are, then the proposal could have some attraction. But we may have difficulty in establishing the benefits with any certainty; and that could make it hard to persuade Mr Ridley to reverse engines. Whether or not local authorities had to sell permission, the proposal would be controversial - eg from those who were worried about the environmental effects. If authorities were unable to refuse permission it would probably be highly unpopular with them. We would also need to consider with DOE how, if at all, we could ensure that local authorities would spend the extra money in a way that could be justified.

15. You may want to consider further once we have the further assessment from Mr Byatt.

DRU

D R INSTONE

Extract from Mr Ridley's MISC 133 paper

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b. Planning conditions

14. Judicious use of planning conditions can enable a development to proceed where otherwise it would be necessary to refuse permission. On the other hand, they can be used in a way which imposes superfluous and costly requirements on developers. The Department's advice in Circular 1/85 is that they should only be used where they are necessary, relevant to planning, relevant to the development to be permitted, enforceable, precise, and reasonable in all other respects. This message has been reinforced in succinct terms in the recently-issued Planning Policy Guidance Note No. 1, General Policy and Principles.

15. These principles are partly established in case law and are partly matters of policy (which have nevertheless to be taken into account in the planning decision where they are material considerations). We are considering whether it would be desirable in the next planning legislation to give statutory force to those aspects which are matters of policy. We have in hand a short research study of the use of conditions by local planning authority, the results of which should be available to help in deciding whether further legislation would be useful.

c. Planning gain

16. Local planning authorities sometimes negotiate agreements with developers under s.52 of the Town and Country Planning Act 1971 and s.33 of the Local Government (Miscellaneous Provisions) Act 1982, on matters that cannot be dealt with by way of conditions attached to a planning permission. Many such agreements are unobjectionable since they deal with matters which are necessary if the related planning permission is to be granted and the development is to proceed. Developers sometimes complain however that local planning authorities seek to use their power to grant planning permission as a basis for obliging developers to enter into agreements to provide benefits in kind, or even in money, which are not necessary in land-use planning terms if the development is to proceed. Where this happens, it amounts to a diversion of the development profits either from the landowner or the developer to the local planning authority. The Department's Circular 22/83 seeks to prevent the improper use of these powers. But there remains scope for abuse and we have recently concluded that we should amend the powers so as to curtail the ability of local planning authorities to use agreements for matters other than those which are necessary if the development is to be allowed to proceed.



THE TIMES DIARY

Med dogs queue here

Here is unpalatable news for Tim Eggar, the Foreign Office minister concerned about British hooliganism abroad. In September Thames Television's *This Week* filmed the alarming behaviour of British holiday-makers in Majorca. Club 18-30, which runs two resorts on the island, was so taken aback by the food-throwing antics of its clients that it turned the TV crew away from a beach party. Nevertheless many were shown being sick, others in a "trousers down" posture. To keep them away, restaurants took English food off their menus. Far, however, from scaring away trade, the programme seems to have acted as an advertisement. I learn that bookings for Club 18-30's Mediterranean holidays this autumn leapt by 30 per cent. Marketing executive Edward Sims insists: "I doubt if the programme has encouraged the wrong element. People probably thought the programme was biased and took advantage of our prices." How I hope he is right.

On the button

Management consultants Arthur Young have proudly announced their selection from a field of 10 firms for a Home Office contract to take the police national computer system into the 21st century. Three of their consultants are to interview police forces across the country to assess their needs before the software is improved. Perhaps the Home Office was impressed by Arthur Young's appointment, announced simultaneously, of a specialist adviser on "services concerned with police"

Putting a price on the land

by Graham Mather

Ministers are frightened by soaring house prices in the South. Companies in and about London complain that they cannot attract while northern businesses complain that executives dare not leave the South's property price escalator. But the government's search for palliatives misses the point: the real problem is that southern house-owners use planning laws to preserve the value of their assets. The planning system itself ensures that supply cannot catch up with demand.

Despite some recent minor improvements, the main structure of town and country planning has survived broadly intact since 1947. Government policy is to operate the system to "facilitate development and renewal wherever that is possible and consistent with other objectives". But these "other objectives" include not only the understandable imperatives of environmental conservation but the entrenched power of established residents in sought-after local communities.

Developers seeking planning consents in the South-east, or consortia of builders planning new country towns designed to the highest standards of environmental amenity, find that progress is slow. Tillingham Hall in Essex, the first new country town proposal on land of doubtful environmental significance, was turned down flat before the last election after strong local protests.

The trouble is that though planning consents are worth big money to developers, the system gives them no "price", while at the same time the granting of consent can have a dramatic cost for politicians in terms of votes lost. If developers could be made to pay for compensation to those who suffer, if a new housing estate meant a substantial capital sum for a local authority, attitudes could be transformed and the route to development in the South

could be opened up. Fruitless government exhortation of southern planning authorities to act against their current best interests could be replaced by a new understanding of local self-interest in having moderate housing development to meet market needs.

Britain's planning system has been unable to do this. It was established by an effective "nationalization" of the right to develop land, in the 1947 Town and Country Planning Act. Development rights were appropriated by the state, to be released only at the political judgement of local authorities dominated by the voting power of local residents. Putting a price on these rights would help release them to meet demand; privatizing planning much as state industries have themselves been privatized.

Developers should be able to buy out land rights

In practice such a price mechanism is emerging in the day-to-day work of planning authorities, through the mechanism of "planning gain". Where a developer can convince an authority that the total nature of his scheme will have significant local benefits, his case is significantly strengthened. Many local councillors are already familiar with packages from the promoters of new country towns offering funding for new roads, the provision of public open spaces, a library or health centre.

The process has its problems. Controversy erupted in the London Borough of Camden recently after it was alleged that the council had been discussing a payment of £2 million with a developer in return for planning

permission. A spokesman at the Department of the Environment said ministers viewed the matter of so-called planning gains sought by local authorities in return for granting planning permission with "very great concern". But it is significant that the department itself, in giving a rare approval for 3,500 new homes in the "interim" green belt at Harlow this month, also sanctioned a payment by the building partnership involved of £3 million towards roads, sewers, infrastructure, a community hall and medical centre.

Developers should be able to buy out land rights at the price of compensating the local community. Those communities would then be able more accurately to assess the advantages and disadvantages of allowing land to be developed. Adding a price system could also help developers to choose between expensive, southern planning permission and cheaper rates in the North.

This suggestion may at first seem radical. In fact, it is closely linked to the original aims of the 1947 legislation, which envisaged a *development charge* levied on planning applicants, broadly representing the increase in land value resulting from planning permission. It proposed, also, a *compensation fund* to compensate owners where authorities placed restrictions on land use. But tacked on to these aims was the less satisfactory bulk of a Central Land Board to administer the system and acquire land for development. In practice, the scheme failed to take off and the charge and compensation systems petered out.

Successive attempts to address problems of land use by nationalization, by betterment levies or development land tax have gone the same way. The reason is that

they all rested on clumsy attempts to redirect land use by taxing powers. Central government had its eye on the extra revenue, which tended not to filter down to local communities. Formalizing planning gain into an explicit "price" could overcome the obstacles.

It could go side by side with a general easing of planning controls as opportunity arises. It could provide an incentive for local authorities to grant permission for development of land currently blighted; it could "rank" the authority's criteria for development and allow a clearer indication of priorities; pay to the community a sum which would "compensate" for apparent detriment and help maximize the use of the least environmentally important land while reducing the rates or the community charge.

Refusal of consent could lead to compensation charge

If, in addition, a compensatory system were to be reintroduced for refusal of consent to development, this could operate as a check on authorities seeking to use the charge system as a major source of revenue, compensate those whose development rights have otherwise been nationalized without compensation, introduce a market assessment of the economic value of activity precluded by public authority decision, and open up the opportunity to cost, through local taxes at higher levels than they would otherwise be, the price of a restrictive approach to development.

Such a change could be a major step to unblocking the planning logjam and reducing the North-South divide.

The author is General Director of the Institute of Economic Affairs.

5/12/87

Shep hav

A fortnight ago I remarked a tendency of some "liberals" to confuse conservatism with anxieties about the position of the Church of England. Conservative politician, now the Very Rev. Dr. Besson, has confirmed this. He has written in his cathedral letter that the position of the Archbishop of Canterbury dates back to Dr. Runcie's resignation for a post-Falmouth memorial service at St Paul's was "less triumphant than hoped for" and because the bishop "spoke of the penitence and the fact on both sides of the coin".

What is more, the fact that "since the campaign of the Church of England conducted exclusively by newspapers which are committed to support the government, it is impossible to believe that the campaign is politically motivated."

As to the so-called factor, I for one thought that Runcie's was the right approach. But on the same one is entitled to ask "campaign" there is a Church of England distinguished from the anxieties of a very important of the church itself present general leaders.

If there is a campaign against the Church of England to recover its fundamental it is to the anxieties of the Anglicans in the sense that I now attempted last week to nature of the political active. No greater damage to the church than that arising from a tendency to think politi

FROM: SIR T BURNS
DATE: 22 FEBRUARY 1988

CHANCELLOR

cc Sir P Middleton
Sir G Littler
Mr Byatt
Mr Scholar
Mr Monck
Mrs Lomax*
Mr Odling-Smee*
Mr Peretz*
Mr Sedgwick*
Mr Bottrill*
Mr S Davies*
Mr Hibberd*
Miss Noble*
Mr Allum*
Dr Courtney*
Mrs Holmans*

*Thanks. This is
an attempt at
Mr Grice et al
points. I am glad
also like to
discuss this*

* without attachments

MORGAN GRENFELL: STUDY OF HOUSING INHERITANCE AND WEALTH

On 3 December:

A little while ago you asked me if we had views on Morgan Grenfells' publication: "Housing Inheritance and Wealth". The attached note is in response. It has been co-ordinated by Mr Grice and reflects comments from EA, MP, FIM and PSE as well as MG.

2. Overall, as you will see, the note suggests there are significant difficulties with much of Morgan Grenfells' analysis. In particular it is argued:

(a) the study over-estimates the importance of inherited houses in both the current and prospective supply/demand balance of the housing market. At the same time, it ignores the more powerful demographic effects on the housing market which are likely to occur as the low birth rate generations of the 1970s come of age;

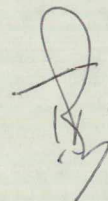
(b) a number of implications which are drawn are probably unsustainable. A central problem is that the analysis tends to think about relative prices separately from what is happening to volumes.

*with
post B. J. v.*

3. I agree with these conclusions. In particular I doubt if the growth of inheritance will lead to such a large build up of liquid assets. I would expect a significant proportion of the inheritance to find its way into ownership of housing by the inheritors. There are various possibilities: moving into a more expensive home; paying off mortgages over £30,000; second homes; and helping children (grandchildren of the donee) into the housing market. The more buoyant the housing market the greater is likely to be the proportion of inheritance going into housing equity; inheritors' mortgages are likely to be high, expected capital gain on second houses will be bigger, and house prices will make entry to the housing market more difficult. If the housing market weakens, say because of demographic effects, the inheritance will be lower. And the process of inheritance and subsequent sale could become one of the important mechanisms restraining the growth of house prices.

4. Despite some of the reservations expressed in the paper it is refreshing to see outside analysts paying attention to the behaviour of assets and liabilities and the impact upon both of demographic changes. There are important considerations which need to be taken into account in medium-term analysis of the economy.

X | 5. After the Budget I plan to invite John Forsyth and his colleagues to discuss their paper with us.



T BURNS

ENCS

MORGAN GRENFELL : STUDY OF HOUSING INHERITANCE AND WEALTH

This note considers the study by the Morgan Grenfell economics team "Housing Inheritance and Wealth", published at the end of 1987. It also aims to provide a critical appraisal.

The Morgan Grenfell Thesis

2. At the heart of the article is the observation that bequests of housing from one generation to the next have been rising over time. Owner-occupation has risen steadily since the War - from 26 per cent of households in 1944 to over 60 per cent now - so that the stock of inheritable housing has been increasing. Moreover, owner-occupation amongst older age groups has risen proportionately more quickly. Morgan Grenfell estimate that owner-occupation amongst households with heads of 65 or older, for example, has grown from about 12 per cent in 1944 to nearly 50 per cent by 1984. Because bequests are naturally more frequent from older age groups than younger ones, this has reinforced the trend of increasing numbers of houses inherited. At constant 1986 prices, they estimate that the value of inherited houses rose from £3.7 billion in 1970 to £6.8 billion in 1986.

3. Furthermore, they expect this trend to continue at least until the end of the century:

(i) there will be some further increase in owner-occupation generally - to perhaps around 70 per cent of households by the year 2000;

(ii) older age groups will show a faster rate of increase as the existing population of owner-occupiers ages. By 2000, Morgan Grenfell project that the value of inherited houses might be £8.9 billion at constant 1986 prices even if there is no further relative increase in house prices. If house prices were to rise by 3 per cent a year relative to prices in general, the value would increase to £13.5 billion again at 1986 general prices.

4. It is suggested that a number of financial and economic effects will follow from this sustained increase in housing inheritances:

(a) there will be a rise in gross financial assets, matched by increased mortgage borrowing. When A dies and leaves his house to B, who already has a house, B will generally want to dispose of it. That means finding a buyer C who will normally have to borrow at least part of the purchase price from a bank or building society. B will no doubt put the bulk of the proceeds of the sale into financial assets. Indirectly this will finance C's mortgage borrowing. These transactions leave the personal sector's net wealth unchanged but raise both sides of the balance sheet;

(b) any increase in gross liquidity (or other financial assets) stemming from these transactions does not result in increased demand for current goods and services but occurs only because of the recycling of an existing asset. The correct monetary policy response is therefore to accommodate the increased volume of willingly held liquidity and not to attempt to tighten policy;

(c) there are implications for the kinds of financial assets the personal sector will wish to hold. Houses are best regarded as non-discretionary assets like cars or land which, once the personal sector has acquired them, perhaps involuntarily, it cannot easily dispose of. This suggests that as involuntary accumulation of houses increases, the personal sector will reduce its holdings of other largely non-discretionary assets such as life assurance and pension fund assets and increase the proportion of its portfolio held in more discretionary assets such as deposits or equities. When B sells the house he has involuntarily inherited from A he is more likely to put the proceeds into liquid assets than into a further illiquid form;

(d) there may be distributional effects on consumption but of indeterminate direction. Inheritors/sellers of houses will have more wealth and probably consume more, but the buyers of these houses will have more debt and consume less.

Appraisal

5. We in the Treasury have long recognised the importance of wealth in explaining the behaviour of the economy. On the demand side, it is hard to explain the behaviour of private expenditure or of the monetary aggregates without reference to what is happening to financial and real assets and to liabilities. Similarly, the supply side of the economy is dependent upon the accumulated stock of productive assets. Demographic changes can have pronounced effects on the levels and distribution of both assets and liabilities. Outside commentators have typically paid scant attention to wealth or demography and studies like Morgan Grenfell's which redress this omission are to be welcomed. Even so, there are difficulties with their analysis.

6. The Housing Market. By concentrating only on the behaviour of inherited housing, Morgan Grenfell miss out a large part of the housing market picture. On a relatively marginal point, we think that Morgan Grenfell overestimate the number of houses which currently change hands because of the death of the owner-occupier. DoE economists believe that the number per year may be around 125,000 rather than 155,000 as Morgan Grenfell estimate. Moreover, they believe, from a more disaggregated consideration of the age/sex structure of the population and taking account of the different life expectancies of males and females which Morgan Grenfell do not, that the increase in inherited houses will rise by only 15 per cent to the end of the century as against the 30 per cent increase Morgan Grenfell project. So in tabular form the difference is as follows:

Number of Inherited Houses

		Thousands
	Morgan Grenfell	DoE
1987	155	125
2000	202	144

7. It is important to put these figures in perspective:

a) inherited houses represented only about 1 per cent of the owner-occupied stock in 1987 - some 14 million houses. By

2000, even on Morgan Grenfell's figures, inheritances would account for only 1¼ per cent;

So what? This compares house inheritances per year with stock

b) in flow terms, by 2000, the addition to market supply of second-hand houses coming from increased sales of inherited houses would amount to at most 2-3 per cent. This effect could easily be counterbalanced - or swamped - by changes in new house completions.

What point is made here?

8. More importantly, Morgan Grenfell ignore a more powerful prospective demographic effect on the housing market. As the low birth-rate generation of the 1970's comes of age, there is likely to be a sharp fall in the demand for houses. Morgan Grenfell's own numbers, in their Annex 1, project the number of household heads aged 15-30 to fall by roughly 400,000 between 1990 and 2000. The effect of this development on housing market conditions is likely to dwarf any effect from increased sales of inherited houses.

But house prices fall, still less impact on the market

not the point

9. Consequences for Assets and Liabilities. Part of what Morgan Grenfell say is no more than that changing demographic patterns have significant effects on observed holdings of assets and liabilities. There can be no quarrel with this. Individuals have fairly well-defined life-cycle patterns: they go into debt early in adulthood, build up assets as their earnings rise and then run them down from or a little before retirement. It may be that we and others can usefully pay more attention to the implications of population changes and individual life-cycle behaviour for asset and liability demands in total.

10. One can also accept the more specific proposition that inherited houses resold by inheritors to new first time buyers will affect both financial assets - accumulated by the sellers - and financial liabilities, incurred by the new buyers. But some of their analysis goes beyond this. It makes a key distinction between non-discretionary assets like houses, which the personal sector may find itself holding involuntarily and discretionary assets. This is a distinction which it is hard to sustain, because it ignores the price mechanism. When A dies and leaves his house to B, B may well not want to own two houses. But as he (and other house-owners

who have been left extra houses) try to sell the second one, there will be downward pressure on relative house prices. Eventually, prices will have fallen to a point where C willingly buys the house or, alternatively, B finds that the opportunity cost of holding onto the house is sufficiently low for him no longer to want to sell it. There is therefore no question of any individual or the personal sector as a whole having to own houses involuntarily after this adjustment in relative prices takes place.

11. The Morgan Grenfell analysis pays little attention to the market mechanism. They analyse the volume of housing quite independently of house prices. The latter is related to the expected trend behaviour of real earnings but not to demand and supply in the housing market. In an aside, they say - correctly - that increased housing inheritance could depress relative house prices. But this observation is not carried through into the rest of their analysis or calculations. Indeed, somewhat parochially, they are inclined to place more weight on the recent Stock Market correction as a reason why real house prices might not rise as fast as they might otherwise do.

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comp
de WSZ*

12. Viewed in this light, it is not clear what the direction of the effect of inheritances is upon financial assets and liabilities. Clearly if the effect is to increase the number of owner-occupiers there will be a rise in the numbers of mortgages outstanding. But since prices will also be lower than if there had been no inheritances, the change in the value of mortgages outstanding is indeterminate. So, too, is the change to the value of financial assets held by the sellers.

13. For similar reasons, it is difficult to accept Morgan Grenfell's view that increased inheritances will raise the voluntary demand for discretionary assets like deposits and equities. It is worth noting that, contrary to what one would infer from the Morgan Grenfell article, the effect of greater inheritances of itself is to decrease the value of wealth held as housing. Inheritances do not change the number of houses owned. But by increasing the supply they help to push down the price of housing. The resulting value of housing wealth, as the product of price and quantity, is thus reduced from

*Why not?
people
inheritance
can't buy
71 houses*

that it would otherwise be. It is most unlikely, therefore, that the personal sector would want to move into liquid assets because it had become satiated with housing wealth. Indeed, one might argue for the reverse to happen. To come to a more considered view one would need to take into account not only the added supply of houses from re-cycled inheritances but also changes in housing demand stemming from variations in entry into the house-owning population. As noted earlier, the failure to consider this side of the demographic structure is a serious omission in the Morgan Grenfell analysis.

Mv Taylor
As requested
Carys Evans 2/12

MORGAN
GRENFELL

Press Release

EMBARGOED UNTIL 17.00 HRS, THURSDAY 26TH NOVEMBER, 1987

HOUSING INHERITANCE AND WEALTH

In the first serious report to analyse the implications of Housing Inheritance and Wealth in Britain, Morgan Grenfell today reveals:

- The major extension of owner occupation took place in the post-war period - it now accounts for around 60 per cent of the housing stock.
- Property inheritance flows are now equivalent to almost 3 per cent of household disposable income - as a financial flow they are broadly comparable with the personal sector's entire financial surplus.
- Owner-occupied inheritances are forecast to increase to 160,000 per year by 1990, 178,000 by 1995 and 202,000 by the year 2000.
- The annual current values of flows from the sale of inherited owner-occupied properties would be approximately £6.8 billion in 1987, £8.9 billion in 1990, £14.6 billion in 1995, rising to £24.3 billion by the turn of the century.
- Average inheritance is estimated at £17,500 per household which is more than 50 per cent higher than average household disposable income.
- If householders choose to sell inherited property this will reduce equity in housing and stimulate demand for financial assets, i.e. reverse the shift into physical assets. It will also depress the relative price of housing with respect to financial assets.
- The implications for house prices, however, are complex and provide scope for further research.
- The uses to which inherited wealth will be put are likely to represent a compromise between relative tax benefits, prospective rates of return and a desire for liquid assets.
- Additional pension plans or traditional life policies are unlikely to benefit to a large extent from these flows.
- Bank and building society deposits should rise. Long term investments like single premium life policies and, probably, equities and unit trusts are also likely to benefit.
- The process of equity withdrawal from the housing market will typically take the form of people borrowing to buy inherited houses to which no mortgage had previously been attached. This boosts personal sector borrowing from banks and building societies.

- A monetary policy which resists this process, for example by attempting to restrict the growth in credit demand or broad money to the growth in nominal incomes, is likely to be deflationary, depress the growth in housing and other asset prices and ultimately, be unsuccessful.
- The rise in both sides of the personal sector's balance sheet is akin to a shift in the velocity of money, which the Government ought to accommodate.

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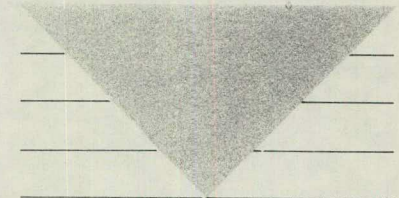
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ECONOMIC
REVIEW

ISSUE NUMBER 45 NOVEMBER 1987

HOUSING
INHERITANCE
AND WEALTH

Since the war owner-occupation has become the dominant form of housing tenure. This has

- ▶ widened the distribution of wealth, offsetting forces operating in the opposite direction, and
- ▶ shifted the personal sector's wealth from financial to physical assets.

This generation is now beginning to pass on its housing wealth to its heirs, generating a large and rising financial flow broadly comparable in size with the personal sector's entire financial surplus. This process will

- ▶ produce a wider dispersion of *financial* wealth in the economy,
- ▶ reduce equity in housing and stimulate demand for financial assets i.e. reverse the shift into physical assets,
- ▶ depress the relative price of housing with respect to financial assets,
- ▶ limit the attractiveness of non-discretionary savings such as AVCs but favour assets such as single premium life policies and unit trusts, and
- ▶ stimulate the demand for mortgage borrowing and raise bank and building society deposits, perhaps by several billion pounds a year.

The fundamental changes in housing tenure in Britain since 1945 have been without parallel in any other industrial country. In little more than a generation the private rented sector has shrunk to a marginal share of the market and been replaced as the dominant form of tenure by owner-occupation. The social and political consequences of these changes have been much commented on, but the financial implications have been subject to little serious analysis. These effects are far reaching, not least because of the unusual demographic structure of house ownership in the UK which developed as a consequence of its very rapid growth. As the level of home ownership and its demographic structure begin to stabilise there will be powerful effects on the financial position of the personal sector and its demand for financial assets.

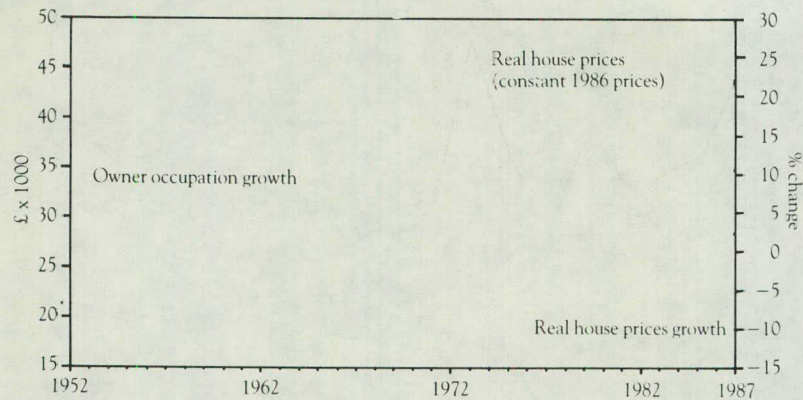
Inheritance flows will play a major role in this change and this paper attempts to quantify the financial flows which will arise from the inheritance of houses. The substantial growth in the inheritance of financial assets which will follow will not have a comparable effect on the aggregate demand for net financial assets. It will, however, tend to broaden the distribution of wealth in the personal sector. The most powerful agent in this process has, of course, been the growth of owner-occupation which has led to widely spread capital accumulation. The growth of popular capitalism is as yet a minor by-product of this powerful process of financial accumulation.

Home ownership has become an increasingly important feature of the housing market. Only 10% of householders owned their homes in 1914, and although the interwar period witnessed the beginning of a new trend in home ownership, by 1944 this still only applied to 26% of households in Great Britain. The major extension of owner-occupation took place in the post-war period and it now accounts for around 60% of the housing stock. The private rented stock declined from 62% to 11.5% over the same period. Local authority housing also took off during this period, increasing from one-eighth of the housing stock in 1944 to almost a third by 1980 but has since fallen back to around little more than a quarter as a result of council house sales in the eighties.

No other country has experienced such a shift. The growing phenomenon of property inheritance is therefore peculiar to the UK. We estimate that property inheritance flows are now equivalent to almost 3% of household disposable income; as a financial flow, they are bigger than the PSBR and broadly comparable with the personal sector's entire financial surplus.

The rapid growth in owner-occupation was a result of a combination of sociological factors and tax relief on mortgage interest payments on the demand side, and a succession of Rent Acts which restricted the supply of rental accommodation and increasingly forced householders to buy their homes. Although rent control was designed to protect the tenant from rising prices and provide security of tenure, in reality it succeeded in disrupting the rental market and discouraged landlords from maintaining property. Faced with the possibility of sitting tenants and low rental income, landlords looked increasingly to selling off property, often at very depressed values. Hence there was a large increase in the supply of properties for sale; often at below market prices which were in any case historically low, averaging £21,500 at 1986 prices in 1952 compared with £44,200 currently.

The graph overleaf shows that the major rise in house prices occurred after growth of owner-occupation had slowed, maximising the accumulation of equity in housing by the post-war generation.



Increased property ownership in the early postwar period brought about a major transformation in the structure of the personal sector balance sheet. Previously the stock of dwellings had been concentrated in the hands of a small number of private landlords and institutions, including large companies and the Church, such that in 1944 only 26% of the housing stock in Great Britain was owner-occupied. This was associated with a heavy concentration of personal sector wealth.

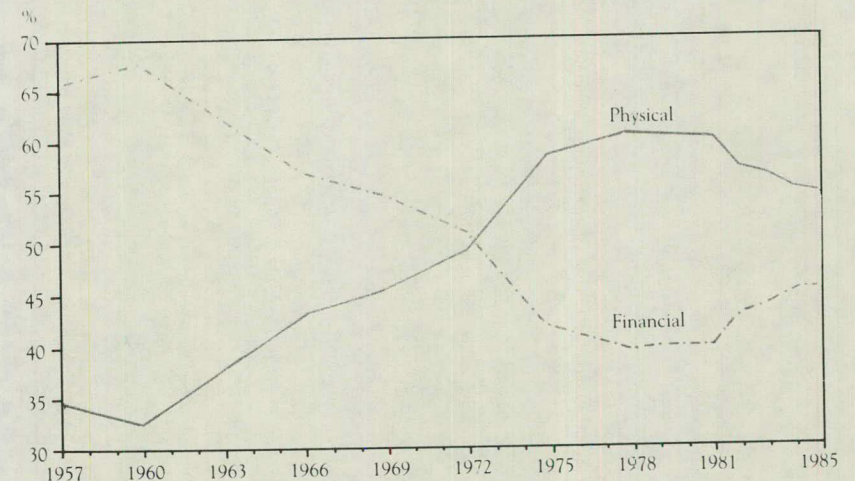
Property Ownership and the Personal Sector Balance Sheet

In the majority of cases where increased owner-occupation was achieved through the purchase of property from private landlords, there resulted a redistribution of the ownership of the housing stock within the personal sector, which allowed the old landlords to switch their capital from property into financial assets. This raised personal sector gross financial assets. On the other hand, since the purchase of dwellings was principally financed with mortgage loans and to a lesser extent the drawing down of financial assets, there was very little overall change to net personal sector wealth. In other cases, where dwellings were purchased from companies and institutions, an increase took place in total personal sector holdings of physical assets, although the increased liabilities to finance house purchase reduced net financial wealth leaving overall wealth unchanged initially.

This transfer also affected property prices. The value of rental property tended to have been depressed by owner's neglect, when owner-occupation encouraged home improvements and must have been responsible for at least part of the buoyancy of house prices over the past 10 years. The market value of rented property also tended to have been depressed by the presence of sitting tenants. In many cases this forced landlords to sell cheaply to the existing tenants, who could then resell immediately at a substantial profit. Thus the transfer from rental to owner-occupied accommodation was associated with an increase in the value of the housing stock, while contractual savings as a result of increased mortgage liabilities also tended to support the accumulation of wealth by having a dampening effect on consumption.

Hence the total effect of increased owner-occupation on the personal sector balance sheet was to encourage the growth and redistribution of gross assets; to enhance the potential for the accumulation of net wealth; to increase the proportion of financial to physical gross assets initially, but ultimately to effect a shift towards more physical assets as house prices rose in real terms, as shown in the graph below; and to increase the long term liabilities of the personal sector.

Ratio of Financial to Physical Assets

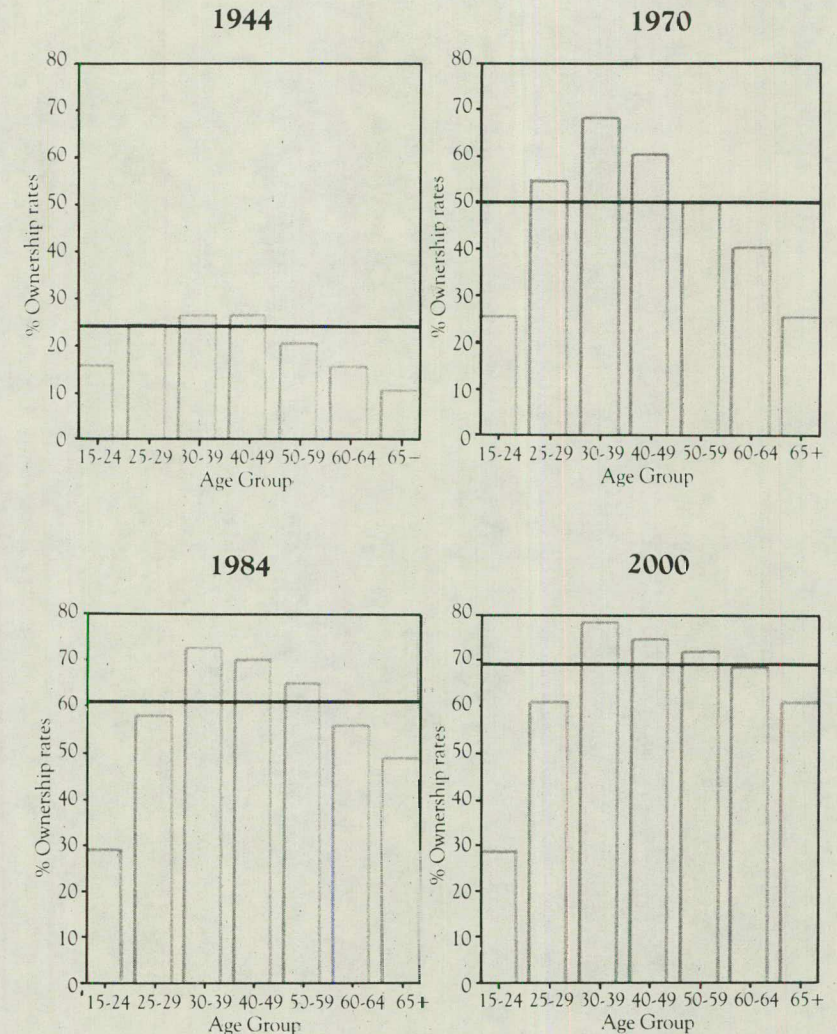


Owner-Occupation and Population Age Structure

By 1960 approximately 42% of heads of households aged 25-40 owned their homes. This contrasted with the over 65's, merely 25% of which were then owner-occupiers. This reflected the relatively low rate of home ownership in the inter-war years when this generation would have been at the age most likely to purchase houses given their rising incomes, eligibility for housing loans and greater mobility. Hence distribution of owner-occupation during the 1950's and 1960's became skewed towards the 25-40 age group. As these householders age, so the average age of home owners increases and the distribution of owner-occupation becomes less skewed towards the younger generations.

The ownership rate for the 15-24 group is surprisingly high, particularly by international standards, given that only a small proportion of this group is eligible for mortgage facilities on the grounds of age or income. This further reflects the poor state of the UK rental market. It remains to be seen whether Government proposals to liberalise rent controls will materially affect this.

Trends in Property Ownership
By Age of Head of Household



Data for 1970 and 1984 were derived from the General Household Savings and Construction Statistics; data for other periods were estimated by Morgan Grenfell.

The effect of increased property ownership in the 25-40 age group during the fifties and sixties is now being reflected in high owner occupation rates for the retired population. Half of heads of households in the UK over 65 years of age are now owner-occupiers; this is likely to approach two-thirds by 2000. As a result there will be a large increase in property inheritance accruing to a majority of households over the coming years.

Projections of owner-occupation rates for each age group were derived using the 1984 General Household Survey of home owner status by age of head of household as a base.

The implicit assumption is that property acquisition now takes place principally from within the 25-40 age group, which suggests that if one half of the 40-49 group own their homes in 1970 then by 1995 the owner-occupation rate will be roughly one half for the over 65 age group. Similarly, 73% owner-occupation rates for the 40-49 group in 1995 will be the consequence of an increase to 73% for the 30-39 group 10 years earlier.

This methodology assumes that net migration will have a negligible effect on owner-occupation rates and that, for the majority of age groups, the death rate of owner-occupiers is not significantly different from that of renters. This assumption is relaxed slightly for the over 60s groups, where it is possible that higher wealth in the owner-occupied sector will be associated with greater longevity. This is reflected in marginally higher owner-occupation rates for each age group as it reaches retirement.

Estimated Flows

Inheritance largely takes place from the over 65 generation, this group having an average death rate of approximately 6%. Thus, 400,000 heads of household over the age of 65 die each year, 200,000 of which are likely to be owner-occupiers. This figure must then be adjusted down by a little over a third for the proportion of two person households in the age group where the survivor will assume ownership and continue to reside in the property when the present head of household dies. This implies that the potential inheritance of a vacant property from a member of the over 65 group is currently in the region of 135,000 units per year. Applying this analysis to all age groups suggests total inheritance of vacant property of approximately 155,000 units per year at current rates.

Given average house prices of around £44,000 property inheritance could be worth some £6.8bn this year, compared with 120,000 owner-occupied properties inherited in 1970 having a total value of £730m at current prices and £3.7bn at constant 1986 prices. The rapid growth reflects the lower owner-occupation rates of the inter-war years.

Forecasts

Owner-occupied inheritances are forecast to increase to 160,000 per year by 1990, 178,000 by 1995 and 202,000 by the year 2000.

Nominal house prices have historically tended to increase broadly in line with average earnings, suggesting around 8% per annum, or 3% real growth and 5% inflation, to the turn of the century, then the annual current values of flows from the sale of inherited owner-occupied properties would be approximately £6.8bn in 1987, £8.9bn in 1990, £14.6bn in 1995, rising to £24.3bn by the turn of the century. This may prove over-optimistic in the short-run however as residential property prices may suffer from the recent collapse of financial markets, particularly in the south-east. Furthermore, the shift from physical into financial assets as a consequence of property inheritance may depress the relative price of housing with respect to financial assets.

Nonetheless, since the major force behind the property inheritance flows is demographic relating to the changing structure of owner occupation rather than deriving purely from rising house prices, the flows would still be large even with no increase at all assumed in house prices. At constant 1986 prices therefore the flows are estimated at £7bn per annum in 1990, £7.8bn in 1995 and £8.9bn by 2000.

Estimates may be biased downwards because we assume that inheritance accrues only from single person households, which neglects the case where both members of a household die in the same year, generating an additional inheritance. In addition, the assumption that only owner-occupied property will be sold may underestimate the actual financial flows from property inheritance. Two factors working in the opposite direction are trading down at retirement and bequests to grandchildren. Both reduce the amount of housing equity

withdrawal on inheritance. Annuity policies which allow the elderly to sell their property without vacating it in exchange for an income are another leakage, but of insignificant size.

In the absence of satisfactory survey evidence we have assumed that the average value of property of the over 65 group, from which inheritance typically takes place, is the same as the average for the whole population. The rationale behind this broad assumption is that householders approaching retirement own property of above average value, but that on retirement some households trade down their property for a cheaper one whilst maintenance of property might diminish. These factors would tend to depress the average value of property of the over 65 group back into line with the norm. The effect of this assumed trading down at retirement would be to reduce the lump sum receipts from the sale of an inherited property although larger flows would still probably accrue in the form of inherited financial assets. Nonetheless, at the time of inheritance, property is assumed to conform to the average for the whole housing stock.

Given the absence of data, these estimates do no more than indicate broad orders of magnitude. They are, moreover, merely the first round effects of property inheritance. Through broadening the distribution of financial assets, property inheritance will have important second round wealth effects, also extending to inheritance of financial assets by future generations and boosting personal wealth for a majority of the population. This will bring about a redistribution of total assets towards second-generation owner-occupiers.

Average Flows Per Household

Wider distribution of home ownership suggests that more than half the population will eventually inherit a share in a property. Assuming a 20-30 year generation gap, this inheritance will typically accrue to the 40-60 age bracket.

Two-person households, moreover, have potential access to shares in at least two properties, each worth an average £44,000 at current prices. The average inheritance depends on the number of children per family between which it will be divided, averaging 2.2 for

the generation likely to inherit over the next few years. This suggests an average inheritance share of 45% or £20,000 per adult in the household. 75% of households in the 40-60 generation contain two adults, and therefore for all households who inherit property the average value of this inheritance will be £35,000. Today's owner-occupation rate for the over 65s of 50% currently implies that around half will receive this average lump sum, the rest will either not inherit a property or inherit rented property from which an annuity rather than a lump sum will derive. Hence the average lump sum inheritance from owner-occupied properties will currently be slightly over £17,500, which is considerably higher than average household disposable income of approximately £11,000 per annum. This is projected to rise to £30,000 (at today's prices) by the turn of the century.

Clearly all inheritors of owner-occupied properties may not choose to sell, particularly if they do not already own a property. It nonetheless seems reasonable to assume that second generation owner-occupation rates, i.e. owner-occupiers whose parents were also owner-occupiers, are higher than the average for the group and may even be as high as 90%. Hence it is assumed that property inheritances principally accrue to owner-occupiers who, in view of the tax and other cost considerations involved with renting out a second property, plus the general inertia which tends to argue for retaining the current status of the property, will choose to sell.

The higher ownership rate for over 65's, now approaching one half means that inheritance, which until recently affected a minority of the population is becoming increasingly common. A large proportion of the population, and particularly existing property owners, will inherit previously owner-occupied property which they will be at liberty to sell. There will therefore be a switch in the form of inheritance proceeds from an annuity deriving from rental income to a lump sum which is unlikely to be reinvested in the housing market. Part of this will be consumed, the bulk of the remainder will be invested in financial assets. This constitutes the conversion of a sizeable amount of physical assets into financial assets over the coming years.

Inherited vacant properties can be sold within the personal sector, releasing substantial financial resources for allocation between consumption and savings. In the absence of official data on inheritance, our estimates suggest that these flows could be equivalent to as much as 3% of household disposable income, larger than the PSBR and almost as large as the personal sector's entire net financial surplus. These flows are forecast to rise to 3.4% of disposable income at constant 1986 prices by the turn of the century.

Property inheritance is a transfer within the personal sector. If the recipients chose to retain their bequest in the form of a house the implications of property inheritance would be limited. In practice, recipients will typically sell their inherited property. The effects of this depend on the use to which the inheritors put the proceeds of their inheritance and the way the purchaser of the inherited house finances his acquisition. Since the purchase must be financed either from holdings of financial assets or loans however, net equity in housing will fall. Our analysis suggests that this process will:

- (i) increase holdings of gross financial assets
- (ii) raise mortgage borrowing
- (iii) have conflicting effects on consumption and saving, with no clear net result.

The first of these can be demonstrated by using a simple example:

In stage 1, both A and B own houses worth £100,000. A is assumed to own his property outright while B has a £50,000 mortgage such that his net equity in the housing market is £50,000. C is not assumed to own a property at stage 1, although he owns £20,000 of financial assets.

Inheritance and Financial Wealth

	(£000)			
STAGE 1	A	B	C	TOTAL
1 Ownership of Housing	100	100	—	200
2 Mortgage Liabilities	—	50	—	50
3 Net Equity in Housing	100	50	—	150
4 Gross Financial Assets		—	20	20
5 Net financial wealth	—	—50	20	—30
6 Net wealth (including housing)	100	50	20	170

	A	B	C	TOTAL
STAGE 2				
1 Ownership of Housing	—	100	100	200
2 Mortgage Liabilities	—	50	80	130
3 Net Equity in Housing	—	50	20	70
4 Gross Financial Assets	—	100	—	100
5 Net financial wealth	—	50	—80	—30
6 Net wealth (including housing)		150	20	170

Row 3 = 1-2; Row 5 = 4-2; Row 6 = 1+5

At stage 2, B inherits a £100,000 house from A, which he then sells to C. C finances 80% of the purchase with a mortgage and 20% from his savings, and in so doing accumulates £20,000 of net equity in housing but forfeits £20,000 of financial assets. By selling the property to C, B accumulates £100,000 of financial assets, but loses the £100,000 of net equity in housing inherited from A. Hence the total property inheritance effect, excluding transaction costs or inheritance tax, is for net equity in housing to fall by £80,000, the value of the extra mortgage liability, and for both financial assets and liabilities to rise by £80,000. Net wealth is unchanged but the inheritance creates additional demand for financial instruments.

Personal Sector Portfolio

The uses to which the personal sector will devote its inheritance income will depend on the preferences of recipients as well as tax and other considerations.

Personal sector assets may be divided into discretionary and non-discretionary. Non-discretionary assets, once acquired, are largely non-liquid, such as land, dwellings, consumer durables or pension fund assets, which the personal sector has either accumulated involuntarily or which it cannot easily dispose of. Discretionary assets, on the other hand, are taken to be those assets which the personal sector has made a conscious decision to accumulate or can realise readily.

(a) Non-Discretionary Assets

Non-discretionary assets have grown from 3.6 to 4.4 times personal disposable income over the period 1978-85. This trend is now likely to go into reverse. The upward trend in the past can be attributed to two major factors: the high growth of personal sector equity in housing, from 1.49 times disposable income in 1978 to 1.80 in 1985; and the growth of equity in pensions funds. The former has been the result of large real increases in house prices, rising owner occupation and the trend in home improvements. Growth in pension fund assets however was in large part enforced through compulsory participation in occupational pension schemes, but also reflects the strong growth of the equity

markets in which the pension funds have invested and, perhaps more importantly, high inflation in the mid 1970's which boosted the discount rate applied to future income streams.

The expectation of inheritance should become an important component of household calculations of non-discretionary assets (non-discretionary since, at this stage, the personal sector cannot influence the accumulation or accrual), and increasingly be incorporated into lifetime consumption and savings patterns. This would argue against additional voluntary pension contributions since it seems unlikely that higher pension rights will be accumulated when households expect a further large lump sum to be made available to them from inheritance either shortly before or shortly after they retire.

While prospective inheritance is taken to be non-discretionary since it is inaccessible to the inheritor, once inheritance has taken place it becomes one of the largest discretionary flows that the personal sector will ever have to allocate. It seems unlikely that they will choose to sign the proceeds away to an asset such as an additional pension plan or life assurance policy which requires steady monthly payments and are not readily accessible. Thus, contrary to government expectations, we do not expect substantial long term growth in additional voluntary pension fund contributions or traditional life policies. However, new insurance products combining tax efficiency with greater liquidity such as single premium policies which effectively delay liability to income tax and are a convenient outlet for lump sum inheritance, may benefit substantially.

(b) Discretionary Assets

Recent trends in personal sector accumulation of discretionary assets would suggest that overseas and UK company securities and unit trusts should continue to be high growth areas, combining the advantages of relative liquidity with high returns. These have been expanding at average annual rates of 23%, 12% and 27% per annum respectively through the 1980s compared with growth of total financial assets of 16%, though part of the

recent rapid growth in overseas assets must reflect a stock adjustment to exchange control relaxation. UK equities have proved particularly popular recently, with private sector holdings increasing by more than 30% in 1986 as a result of wider share ownership from recent privatisation programmes. Nonetheless, the stock market crash may have a significant effect on personal sector demand for equity related instruments, leading to a greater diversification of portfolios, perhaps to include instruments having greater capital certainty or inflation protection.

The building societies have consistently outperformed the banks in retail savings markets throughout the 1980s, their deposits from the personal sector increasing by 20% per annum compared with 11% for the banks. This reflects the more aggressive marketing stance of the building societies over this period, with the banks in many cases playing down their interest bearing deposits as a result of the greater profitability of non-interest bearing current accounts. With the easing of many constraints on the range of services offered by the building societies as a result of the 1986 Building Societies Act, the banks will have to adopt a more active marketing policy in the future in order to retain market share on the liability side and continue to increase their penetration of the lending market. This may be particularly true if the growth of unsecured and secured lending for other than house purchase proves to be as buoyant as anticipated.

For the remainder of the century we expect the proportion of discretionary to non-discretionary gross assets to rise, reversing the trend of the last 20 years. This reflects a preference for liquidity at the margin; the effect of recent privatisation programmes in bringing about a broadening of share ownership among small investors and a wider perception of the range of financial instruments on offer; and the redistributive effects of property inheritance.

(c) Liabilities

The process of equity withdrawal from the housing market will typically take the form of people borrowing to buy inherited

houses to which no mortgage had previously been attached. This boosts personal sector borrowing from banks and building societies. The effect could be large. If, for example, the typical inherited house is acquired with an 80% mortgage, inheritance flows which are estimated to be running at some £7bn a year, account for over £5bn borrowing for house purchase, approaching one-quarter of the current total. Moreover, since inheritance flows have been rising rapidly, they could explain much of the increase in borrowing for house purchase in recent years. It could be argued that this rise in credit demand is non-inflationary and should be accommodated by economic policy.

(d) Consumer Demand

The effects of property inheritance on consumer demand are complex. In effect, the saving of the post-war generation, who struggled to meet mortgage commitments and in the process accumulated equity in housing, will be partly consumed by their heirs. The extent of the increase in consumption depends on how recipients of inheritance allocate the legacy. Standard consumption theory suggests that most of the inheritance will be invested and the income from it consumed. This is likely to apply particularly well to inheritors approaching retirement who use the bequest to boost retirement income. This delays but does not remove the effect on consumption.

This rise in consumer demand will be offset, however, by lower spending by new house-buyers. The increase in their outgoings in the form of mortgage repayments and associated insurance policies will reduce their spending on consumer goods.

Therefore, as compared with a world where renting dominates housing, new owner occupiers consume less but those who inherit consume more. The overall impact on consumer demand is unclear, but it is likely to boost demand for luxury items.

(e) Implications for Monetary Policy

The foregoing analysis suggests that personal sector's assets and

liabilities will grow strongly with no clear implications for aggregate demand. A monetary policy which resists this process, for example by attempting to restrict the growth in credit demand or broad money to the growth in nominal incomes is therefore likely to be deflationary, depress the growth in housing and other asset prices and, ultimately, be unsuccessful. The rise in both sides of the personal sector's balance sheet is akin to a shift in the velocity of money, which the Government ought to accommodate.

V. CONCLUSION

We estimate that property inheritance is now some £7bn per annum; adjusting for inflation this compares with £3.7bn in 1970 and is projected to rise to £7.7bn by 1990 and £13bn by the end of the century. In cash terms the movement is even more dramatic. Official figures on this flow do not exist and we have had to do some detective work to arrive at our estimates. They should therefore be treated with some caution. Nevertheless a movement of this size will inevitably have important effects. We expect it to bring about important changes to the structure of the personal sector balance sheet, widening the distribution of gross financial assets, boosting credit demand and releasing resources currently devoted to non-liquid physical assets for the purchase of more liquid discretionary assets.

This process has no clear impact on consumer demand or inflationary pressures within the system. It therefore suggests that the monetary authorities must account for this shift in their policy on credit demand and broad money growth. A neutral monetary policy would allow both broad money and credit to grow faster than money GDP.

This process of wealth accumulation differs from the standard model of capitalist accumulation in that it does not derive from the productive process. Wealth of this form derives from the involuntary inheritance of a rapidly appreciating non-discretionary asset, and has important second generation effects for the inheritance of both property and financial assets. If the increase in property values continues to outstrip other assets, there will eventually be a redistribution of wealth in favour of owner-occupiers and a rise in their holdings of discretionary assets.

Higher household wealth from first generation property inheritance will ultimately result in a larger inheritance of financial and physical assets bequeathed to successive generations. As such, it may be appropriate to term this process as one of "familial accumulation", and this may eventually play an important role in determining consumer behaviour and the composition of their asset allocations.

The uses to which inherited wealth will be put are likely to represent a compromise between relative tax benefits, prospective rates of return and a desire for liquid assets. The typical timing of inheritance means that it is likely to deliver a large lump sum payment close to retirement. As a result, additional pension plans or traditional life policies are unlikely to benefit to a large extent from these flows. Unit trusts, company securities and newer life policies could be beneficiaries, although the effect of the recent stock market crash on extrapolative expectations may cause a diversification of portfolios away from equity based towards more risk protected instruments.

Annex 1

Projections of Number of Households

Age	million, by age of head				Death Rate %
	1985	1990	1995	2000	
15-24	1.4	1.6	1.5	1.4	0.04
25-29	1.1	1.4	1.3	1.2	0.06
30-39	4.0	4.1	4.3	4.5	0.12
40-49	3.6	3.8	4.0	4.2	0.30
50-59	3.3	3.4	3.6	3.7	0.90
60-64	1.7	1.7	1.8	1.8	1.60
65-69	3.8	3.9	4.0	4.2	3.40
75+	2.8	3.0	3.1	3.3	10.00
TOTAL	21.7	22.9	23.7	24.3	

UK household forecasts are based on Department of Environment projections for England and Wales and OPCS population projections, while death rates are assumed broadly constant over the forecast period.

Annex 2

Age	1944(†)	1970(*)	1984(*)	1990(†)	1995(†)	2000(†)
15-24	18	31	28	28	28	28
25-29	28	52	57	60	62	64
30-39	30	58	73	75	77	78
40-49	30	50	66	71	73	75
50-59	28	48	64	67	69	71
60-64	20	48	55	58	65	68
65+	20	45	50	52	55	60
Mean	26	48	58	60	64	66

(*) Derived from the General Household Survey and Housing and Construction Statistics.

(†) Morgan Grenfell estimates.



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
SW1P 3AG

My ref:

Your ref:

25 February 1988

*I will have a
word with Mr R
Aston when I next
see him.*

Dan Aszel

Following our talk on Wednesday evening you asked me to consider the suggestion that local planning authorities should be able to "auction" planning permissions and to retain part of the proceeds. The thought was that this would be a means of capturing part of the development value of land to help offset the costs that fall on the public sector as a result of new development - roads, drainage, schools and local social services. You also suggested that this system would reduce the number of planning appeals with which I have to deal, because the local authorities would be more willing to grant planning permission.

A proposal on these lines would join the long history of earlier attempts to capture development value - most of which were introduced by Labour governments and all of which we have subsequently abandoned. The 1947 Act was the most elaborate of these. It attempted, in effect, to nationalise development values and instituted a system of charges that had to be paid by the developer. We repealed that in 1953. The next attempt was in the Land Commission Act 1967 which restored something akin to the development charge. We abolished that on returning to office in 1970. Development gains were then subject to capital gains tax and this was superceded by the Development Gains Tax in 1973. The next Labour government tried again with the Community Land Act 1975 and the Development Land Tax Act 1976. We repealed the 1975 Act but retained the Development Land Tax (in a modified form) and finally abolished it in the 1985 budget. Capital gains tax is still levied on most types of land and property transactions, or they may be subject to corporation tax. This brief summary does not do justice to the legislative and administrative turmoil induced by these successive attempts to intervene in the development land market.

I would not care to make a further assault on this corpse-strewn battlefield. But apart from the practicalities and considerations of political prudence, I do not think that a system such as you propose would serve our purposes or be congruous with our policies.

Firstly, to charge for planning permissions would in effect be a "tax" on development. To some extent the market would adjust to this over time, since prospective developers would try to deduct the charge from the price that they were prepared to pay the



landowner. But all the previous legislative attempts have shown that the result would be that owners were reluctant to sell and the price at which they would be prepared to sell would not come down to an extent that fully offsets the tax or charge. It was for this reason that previous Labour governments combined such a tax with extensive powers to acquire land compulsorily for development. In short, it would tend to reduce supply and put up the price to the consumer.

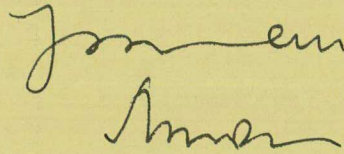
Secondly it would give local authorities extraordinary new powers in effect to pre-empt the development value of privately owned land and offer it for sale. At present local authorities can only give planning permission in response to an application: they cannot simply decide what development should take place on somebody else's land and give permission for that of their own accord - let alone sell that permission.

Thirdly, developers and landowners would still want the right of appeal against a local authority's refusal to grant them permission for the development that they want to carry out. I agree that local authorities might be a little less inclined to withhold permission if they were to get part of the proceeds, but I do not think it would be right for them to get the proceeds if permission was only granted on appeal: this in turn could set up some very strange anomalies. Planning decisions are supposed to be taken on the merits of the case, having regard to environmental and other considerations. There are plenty of people who would remind us of that and who would think it scandalous that local planning authorities should have a monetary incentive to give permission (there is already a good deal of criticism of the fact that local planning authorities can give themselves permission for their own development on land which they own). There are, however, provisions in the Planning Act and elsewhere that enable local authorities to enter into agreements with developers whereby the developers either provide or pay for the roads, sewers etc. needed to serve their development. The present powers are open to abuse and can lead to authorities making demands on developers for "planning gain" that bear no relation to the development itself. We have proposals - agreed by the Prime Minister - for confining powers to obtain such concessions to what is reasonable for the purposes of the development.

These are some of the arguments that would be raised against any such proposal. I agree that land prices, especially for housebuilding and in the South East in particular, have reached very high levels. But they reflect the prices that people are able to pay for new houses after intense competition between developers for the available land. Trying to capture part of that development value would not reduce the price to the housebuyer: it would tend to increase it. There are many other factors that affect the price of land for housing, including the availability of mortgage funds, interest rates and wage inflation. Making more land available has some effect, but it

would be necessary to increase the supply dramatically for any reduction in the land price to feed through into house prices. Making it more attractive for people and firms to move out of the over-heated South East to other parts of the country where land and house prices are far lower is a more attractive approach - and there are welcome signs that this is beginning to happen quite strongly.

So I am not enthusiastic about your suggestion!

A handwritten signature in dark ink, appearing to read 'Nicholas Ridley', written in a cursive style.

NICHOLAS RIDLEY



~~BF 24/3~~
BF next
Terry Burns
✓ related
Pryp

FROM: A C S ALLAN
DATE: 2 March 1988

SIR T BURNS

- cc Sir P Middleton
- Sir G Littler
- Mr Byatt
- Mr Scholar
- Mr Monck
- Mrs Lomax
- Mr Odling-Smee
- Mr Peretz
- Mr Sedgwick
- Mr Bottrill
- Mr S Davies
- Mr Grice
- Mr Hibberd
- Miss Noble
- Dr Courtney
- Mrs Holmans

MORGAN GRENFELL: STUDY OF HOUSING INHERITANCE AND WEALTH

The Chancellor was grateful for your minute of 22 February, and for the interesting points raised by Mr Grice et al.

A C S ALLAN



CH/EXCHEQUER	
REC.	18 MAR 1988 18/3
ACTION	C ST
COPIES TO	

BF 21/3
BF 22/3

Prime Minister

NEW HOUSING FINANCE REGIME AND CAPITAL CONTROL SYSTEM

At the E(LF) meeting on 24 March we are due to discuss my proposals to reform the arrangements for regulating the finances of local authority housing (E(LF)(88)3). I have also recently circulated for clearance by correspondence a draft consultation document on the general capital control system.

Both of these are major issues and will have important political overtones as much for our own supporters as for the opposition. It may be helpful for you and for colleagues to put them in a wider political context.

Our present capital control system for local authorities is outdated. We are ostensibly trying to control the net capital expenditure by local authorities and to allocate spending approvals where they are most needed. But in practice net expenditure has in almost all years diverged markedly from provision. Authorities, above all our own supporters, have built up very large stocks of capital receipts, and we have had to incur political unpopularity with them to prevent these resources from being used for further capital spending too quickly.

The system is also much too complex, with far too many loopholes and exemptions. The most irresponsible authorities in the control of our political opponents have been building up severe problems for the future by creative accounting devices of various sorts. These devices, and the allowance that must be made for the use of accumulated capital receipts, have increasingly restricted the scope which we have to distribute resources through allocations in accordance with the real needs for capital spending.

There is a clear gain to be achieved by introducing a sensible capital control system which will control what needs to be controlled, and will leave authorities reasonable flexibility to plan their own programmes over a number of years within our



overall constraints. The central part of our proposals is to move from an expenditure control to a control on borrowing by local authorities. This is what many authorities have been asking for, and it should be widely welcomed. It is generally recognised and accepted that the level of borrowing by the public sector and by local authorities is something that needs to be controlled; and it will be difficult for anyone to mount an effective criticism of a control on borrowing as such.

In principle moving our control on to borrowing means that authorities should be free to achieve additional capital spending by raising finance by selling other assets. One key change in our new proposals is that authorities will be able to finance additional capital spending directly from revenue if they are prepared to raise the community charge to pay for it. This should give an additional freedom and flexibility to local authorities, and at the same time an increase in accountability to the local electorate.

Local authorities will also be free to spend a proportion of their capital receipts on additional capital expenditure either immediately or over time. The freedom to spend the prescribed proportion of receipts when they wish will be very welcome to authorities, and will overcome a lot of the criticism we have received about the artificial constraints of annuality.

We must recognise however that the other aspect of our proposals on capital receipts will be less popular - namely that the non-prescribed proportion of receipts should be put towards reducing debt or towards approved financial investments rather than towards new capital expenditure. We shall have to take this criticism head on. The fact is that local authorities have very large accumulations of land and property at present, and our objective is to reduce this total. Our objective would be totally frustrated if every time an authority sold one asset they were immediately able to spend the proceeds on acquiring another one.



We are moving towards smaller leaner local authorities with smaller stocks of housing and other physical assets, operating more as enablers than as providers. We shall have to sell this message vigorously, particularly to our own friends and supporters in the shires and on our backbenches who think that authorities should be free to use all the proceeds of asset sales to acquire new assets, especially since we have at various times in the past given public assurance that authorities would be able to use all their capital receipts over time.

On the housing side, the issue is much more acute. Rented housing represents potentially the biggest asset that district councils have, and the great prize of our new housing policies is to realise these assets, and transfer them into private ownership. The right to buy has already secured the transfer of over 1 million dwellings, but there are still 4.5 million to go. We now need to promote larger block transfers of local authority housing to other owners.

We have been encouraging voluntary piecemeal disposal of council housing empires - Wandsworth has shown what can be done in this direction, and what a dramatic effect such a policy can have on the local economy and on the local political scene. This has developed into the new and most exciting initiative which I have already described to you - local authorities seeking to get out of the landlord business altogether, and transfer their stock to independent landlords. We are all agreed that so long as we can be sure that councils are genuinely relinquishing control, and the new landlords are truly independent, we must do everything we can to assist these changes.

Every transfer of this kind brings a receipt, which is potentially available to reduce the PSBR. A cautious estimate of the aggregate tenanted value of the local authority stock in England is of the order of £20bn. It is clearly vital for our broader economic strategy that potential resources of this magnitude are kept under effective control. It is impossible to leave them with local authorities to spend at will.



The scale of these potential receipts on the housing side is so great that we shall have to continue to apply to housing receipts rules which are significantly more stringent than those we can afford to apply to other local authority receipts. We cannot rely on debt reduction to soak them up, even if we insisted on councils applying them 100% to that purpose. In some cases, the value of housing assets exceeds housing debt by many £m. Such authorities would be capable of extinguishing all debt and funding all their reasonable requirements for new investment for decades ahead. This will tend to be the case in the southern shire districts, where our supporters will be in the forefront of the move towards voluntary privatisation.

The housing proposals therefore have to strike a careful balance between our two major policy objectives - getting maximum privatisation, and preventing the proceeds being spent in a spending spree. I am proposing some very restrictive rules on authorities' free use of housing receipts, including not only the requirement to devote a high proportion to debt reduction, but also a block on spending the substantial surpluses which might remain even after 100% redemption. There is no doubt that these restrictions will be seen as oppressive by our supporters in local government, and by some of our backbenchers. We are all too depressingly familiar with the parrot cry that we should allow authorities to spend "their own" money. Our new proposals do not meet that demand. But there are two new factors. First, the sheer scale of some of these receipts is so great that it will be clear that they cannot just be spent. Second, an important difference between the present control system and the one proposed is that councils will in future hold in their own hands the key to unlock some of the restraints on them. Under the proposals, surplus spending power will be sterilised 90% up to the point that the council concerned disposes of its stock. When it finally closes down its Housing Revenue Account at least a proportion of the surpluses will be released. The existence of this incentive will, I believe, enable us to shift the argument onto a different plane, and to get our supporters to give priority to the big political prize of large scale privatisation of council housing.



The proposals for the revenue side of councils' housing operations also have some features which will need careful presentation. The proposal to end local authorities' ability to make contributions from the rate fund to the housing revenue account (with the benefit of RSG subsidy from the central taxpayer!) is likely to annoy only those local councillors who have a deliberate policy of keeping rents at uneconomic levels. We shall not be preventing authorities from continuing to make transfers the other way, thereby giving their community charge payers the benefits of efficiency savings. The proposal to specify the minimum surpluses to be transferred will, however, be controversial, particularly when the equivalent sums will be abated from other central government subsidies to the authority. This aspect is nevertheless an essential part of the package. Without an effective mechanism for requiring reasonable surpluses to be generated, there would be no spur to efficiency, and our other policies of promoting competition with independent landlords through Tenants' Choice could be frustrated by councils deliberately reducing rents in order to compete unfairly with the private sector.

Unless we can apply continuing firm pressure on the housing revenue accounts, we shall not sustain the impetus towards large scale privatisations of council housing.

I am copying this letter to the members of E(LF) and Sir Robin Butler.

R. B. N. R.

P.D. N R

18 March 1988

(Approved by the Secretary of State and signed in his absence)

CONFIDENTIAL

FROM: D R INSTONE

DATE: 18 March 1988

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Hawtin
Miss Peirson
Mr Turnbull
Mr McIntyre
Mr Potter
Mr Betenson o/r
Mr Deaton
Mrs Holmans
Mr Perfect
Mr Call
Mr Tyrie

E(LF) DISCUSSION ON HOUSING NEXT WEEK

Following my submission of yesterday, you asked for a draft letter to send to E(LF) on Mr Ridley's housing finance proposals.

2. There have been further developments since then. In particular Mr Ridley now intends to circulate two further papers on disposals of local authority stock and related issues, neither of which have been properly discussed with officials. Copies of these are attached. In the light of the view you took on the housing finance paper, we did not press that they should not be circulated. But I suggest that you should cover reservations on these papers as well in your letter, and I have so drafted.

3. The first part of the attached draft sticks fairly closely to the line in the draft paragraph I gave you yesterday, and no further comment seems necessary.

4. The second part of the draft letter describes reservations on the proposals in these two new papers by Mr Ridley, copies attached. These I hope are largely self-explanatory.

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5. We have agreed the DOE revisions to the conclusions of these papers to make it clear that they need further discussion with the Treasury after the E(LF) meeting. But I still think it would be well worth your writing with reservations on them, because otherwise there is a considerable danger that E(LF) will still effectively accept his proposals. In fact, as you will gather from the draft, there are major uncertainties, especially over the public expenditure effects of what is proposed, and none of these have been identified. Mr Ridley ought to have time to take these comments into account before coming back to colleagues, since the detailed criteria in these papers do not depend on primary legislation (which is likely to be expressed in very general terms anyway): all he wants is to be able to say enough to explain what he is trying to do when he introduces the amendments at the Report Stage. But even that stage does not require final decisions on all the kind of detail which Mr Ridley is proposing in his current papers.

6. Given the E(LF) timetable, you will no doubt want to write as soon as possible, so that your points can be reflected in briefing for other Ministers.

▷ R W

D R INSTONE

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DRAFT LETTER TO:

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
2 Marsham Street
LONDON SW1P 3EB

E(LF) DISCUSSION ON HOUSING - 25 MARCH

Colleagues may find it helpful to have comments on your proposals for discussion by E(LF) on local authority housing finance (E(LF)(88)), the privatisation of local authority housing (E(LF)(88)) and the proposed landlord's code (E(LF)(88)). Many of these arise from the Treasury's having had very little time indeed to consider your proposals and the absence of information about their financial effects.

2. I very much welcome your broad aims of tightening up financial discipline on local authority housing through ring-fencing. I also favour encouraging maximum disposals of local authority housing stock to the private sector, provided this can be done on acceptable terms.

3. My main reservations, however, are as follows.

New Financial Regime for Local Authority Housing (E(LF)(88))

4. You have two main proposals here: some firm proposals for ring-fencing, to achieve better control over local authority housing stock so long as they continue to own any, and some more tentative ideas on financial incentives to encourage wholesale disposals.

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5. I have two main difficulties with this. First, while I recognise the strong political attractions of encouraging wholesale disposal of local authorities' housing stock, it has not yet been established that it will be possible to devise a scheme of financial incentives that would be cost-effective. A system of incentives which allows authorities to retain receipts would give more incentive to Shire Districts and less to the metropolitan authorities, the reverse of what is needed; yet I understand that this is what you have in mind. Nor have the housing benefit consequences of large-scale privatisation been assessed.

6. Second, your paper does not provide an adequate assessment of the public expenditure implications of your proposal to ring-fence housing and shift the balance of support provided from central and local taxation. It is for example, unclear, whether the housing benefit increases to which your proposals would lead would be fully offset each year after public expenditure reductions.

7. I suggest therefore that decisions on the principle of providing financial incentives for ~~such~~ disposals and on the precise arrangements for ring-fencing should be taken only when further work has been carried out on the financial implications and in particular on whether it is possible to devise a cost-effective ^{incentive} scheme which is acceptable in public expenditure terms.

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Privatisation of Local Authority Housing and Proposed
Landlord's Code (E(LF)(88) and E(LF)(88))

8. I see a number of difficulties about the proposals in these two papers, which are closely related. First, the proposed guidelines leave unresolved how commercial we want the arrangements to be. For example you suggest that there should be restrictions on the ability of landlords who take over the stock from local authorities subsequently to sell the stock on to other landlords. But that is bound considerably to depress the sale price and hence the local authorities' initial capital receipts. You are suggesting central government take over responsibility for loans that cannot be repaid from these receipts: this ~~proposal~~ would considerably increase the potential costs to the Exchequer.

9. Second it is unclear from your proposals what controls you are proposing on the rents which the new landlords could charge. If the rents are at commercial levels, there could be major public expenditure implications for housing benefit, since that would imply a substantial increase over current local authority rents. If on the other hand the rents were to be held below this, that would reduce the attractiveness to potential purchasers of taking on the stock and depress sale proceeds. This is a key issue which needs careful examination.

10. Third, the arrangements for the new landlords taking on local authorities' existing statutory obligations, such as housing the homeless, do not appear to be fully worked

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out. Again there could be significant public expenditure implications here which need to be addressed.

11. Finally, the detailed arrangements for terms of sale need much more working out. In particular your proposed arrangements (paragraph 16 of E(LF)(88) [ie the paper on privatisation of LA housing]) under which a substantial amount of the finance of the new landlords could come from the local authorities themselves could greatly weaken the private sector disciplines which we are trying to impose. And the arrangements for deciding on the use which local authorities could make of their capital receipts after all their debt has been repaid could be a major windfall especially for some Shire Districts, ~~with low~~ leading to high public spending.

12. For all these reasons I believe that it would be premature for colleagues to agree your proposals until we have had more time to consider them in detail. I suggest we ask our officials to get together quickly on all the outstanding issues on these papers, including those I have identified, with the aim of further consideration by the Sub-Committee given after Easter.

13. I am copying this letter to other members of E(LF) and to Sir Robin Butler.

(JOHN MAJOR)



mpw

Chy

E (LF) on Thursday

CST is happy to take lead on this, so no need for you to go. But you will wish to be aware of issues - expensive uncosted ideas being pushed through at speed.

CST has written pouring cold water on DoE enthusiasm (behind)

Leak ✓ CST. -

mpw 22/3

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Treasury Chambers, Parliament Street, S

The Rt Hon Nicholas Ridley AMCE MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London
 SW1P 3ER

cc:
 Chancellor
 Sir Peter Middleton
 Mr Anson
 Mr Phillips
 Mr Hawtin
 Miss Peirson
 Mr Turnbull
 Mr Instone
 Mr McIntyre
 Mr Potter
 Mr Betenson
 Mr Deaton
 Mrs Holmans
 Mr Perfect
 Mr Call
 Mr Tyrie

March 1988

E(LF) DISCUSSION ON HOUSING - 25 MARCH

Colleagues may find it helpful to have comments on your proposals for discussion by E(LF) on local authority housing finance (E(LF)(88)3), the privatisation of local authority housing (E(LF)(88)4) and the proposed landlord's code (E(LF)(88)5). Many of these arise from the Treasury's having had very little time indeed to consider your proposals and the absence of information about their financial effects.

I very much welcome your broad aims of tightening up financial discipline on local authority housing through ring-fencing. I also favour encouraging maximum disposals of local authority housing stock to the private sector, provided this can be done on acceptable terms.

My main reservations, however, are as follows.

New Financial Regime for Local Authority Housing (E(LF)(88)3)

You have two main proposals here: some firm proposals for ring-fencing, to achieve better control over local authority housing stock so long as they continue to own any, and some more tentative ideas on financial incentives to encourage wholesale disposals.

I have two main difficulties with this. First, while I strongly support the policy of encouraging wholesale disposal of local authorities' housing stock, I am concerned that we have not yet devised a scheme of financial incentives that could be cost-effective. In particular we must make sure that

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any scheme provides the right balance of incentives between shire districts and metropolitan authorities. Differences in the state of their housing stock, as well as in their political motivation, mean that an incentive scheme could have very different effects on these two kinds of authority. The public expenditure consequences - especially for housing benefit - also need to be carefully assessed.

Second, your paper does not provide an adequate assessment of the public expenditure implications of your basic proposal for ring-fencing. It is unclear to me, for example, whether the housing benefit increases to which your proposals would lead would be fully offset each year by public expenditure reductions. Nor is it clear, as you assume, that deficits on housing accounts should automatically be made good by Central Government rather than by the Community Charge payer, or that it would make little difference in practice which route we adopted.

I fully understand your wish both for incentives for wholesale disposals and for ring-fencing. But, in view of the uncertainties I have mentioned, I think that before we take decisions officials should carry out further work on the financial implications and in particular on whether it is possible to devise a cost-effective incentive scheme which is acceptable in public expenditure terms.

Privatisation of Local Authority Housing and Proposed Landlord's Code (E(LF)(88)4 and E(LF) (88)5)

I see a number of difficulties about the proposals in these two papers, which are closely related. First, there are no costings to your proposals.

Second, the proposed guidelines leave unresolved how commercial we want the arrangements to be. For example you suggest that there should be restrictions on the ability of landlords who take over the stock from local authorities subsequently to sell the stock on to other landlords. But that is bound considerably to depress the sale price and hence the local authorities' initial capital receipts. You are suggesting central government take over responsibility for loans that cannot be repaid from these receipts; but that would considerably increase the potential costs to the Exchequer.

Third, it is unclear to me from your proposals what controls you are proposing on the rents which the new landlords could charge. If the rents are at commercial levels, there could be major public expenditure implications for housing benefit, since that would imply a substantial increase over current local authority rents. If, on the other hand the rents were to be held below these levels, that would reduce the attractiveness to potential purchasers of taking on the stock and depress sale proceeds. This is a key issue which needs

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careful examination.

Next the arrangements for the new landlords taking on local authorities' existing statutory obligations, such as housing the homeless, do not appear to be fully worked out. Again there could be significant public expenditure implications here which need to be addressed.

Finally, the detailed arrangements for terms of sale need much more working out. In particular your proposed arrangements (paragraph 16 of E(LF)(88)4) under which an (undefined) element of the finance for the new landlords could come from the local authorities themselves could greatly weaken the private sector disciplines which we are trying to impose. And the arrangements for deciding on the use which local authorities could make of their capital receipts after all their debt has been repaid could be a major windfall especially for some Shire Districts, leading to higher public spending.

For all these reasons I believe we need to consider your proposals in more detail before we reach decisions. I suggest we ask our officials to get together quickly on all the outstanding issues on these papers, including those I have identified, with the aim of further consideration by the Sub-Committee after Easter.

I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robin Butler.

JOHN MAJOR

8/15/88 28/4
FROM: I C R BYATT
DATE: 21 March 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Monck
Mr Phillips
Mr Hawtin
Mr Spackman
Mr Instone
Mr Parsonage
Mr Potter
Mr Betenson
Mrs Diggle
Mr Graydon
Mrs Holmans
Mr Tyrie

SALE OF PLANNING PERMISSION

Your Private Secretary's minute of 20 January asked for a note about how we might enable local authorities to sell planning permission.

2. Mr Instone sent you an interim reply on 19 February saying that Mr Tyrie and I were looking further at the economic aspects.

3. I now enclose a note on this subject which Mrs Holmans and I have prepared in consultation with Mr Tyrie.

4. There are a number of potential attractions to the idea. It could lead to a more transparent and efficient method of deciding on the development of land. It could provide local authorities with the direct financial incentive to develop land which is lacking under the present and new RSG systems and so encourage them to be less restrictive than they are at the moment. But as the note shows there could be problems. The sale of planning permission could not, by itself ensure that local authorities were readier to release land for development. If it gave local authorities monopoly powers it could even give them more scope for being more

negative in allowing development - particularly in areas such as the south east where the pressures against development are very strong.

5. In writing the note Mrs Holmans and I have also been very conscious of our lack of detailed knowledge of the planning system and the need to be able to discuss with experts in the DOE before we could take things much further. I understand that DOE, and Mr Ridley in particular, are unlikely to be in favour of the proposal as it stands.

6. My own view is that may well be something we can build on in this area. In particular I think it could be worth taking further the idea of a modified market mechanism sketched in in paragraphs 23 to 25 especially if this were linked to the designation of action areas.

7. I expect you will want to consider this note in parallel with Mr Instone's submission.

IB

I C R BYATT

THE SALE OF PLANNING PERMISSION

Objectives

The main objective of the local planning system is a balanced development of different land uses for the long term interests of the community (eg low cost as well as high cost housing, leisure and recreational facilities as well as industrial and commercial development etc). The sale of planning permission for change of land use would involve payments for agreement to switch land from a less profitable (eg agricultural) to a more profitable use (eg housing or industrial or commercial use). The proposal can be appraised by reference to two distinct criteria:

(i) would sale of planning permission make the process of granting planning permission more efficient and more transparent - ie would permission for change of use go to those best able to profit from the change? This has been the traditional argument for selling permits - such as import licences or rights to the exploitation of minerals deposits - but because of the need to preserve balanced development it may be less applicable here.

(ii) Would sale of planning permission increase the scale of permissions granted? Rigidities in the mechanism for granting planning permission and the narrow vision of some local planners may, especially in the South East, be restricting economic growth and reducing labour mobility. (It may also be causing social problems in London.) The change to a uniform non-domestic rate and the new RSG system is also relevant. Would sales of planning permission offset any change in the financial incentives facing local authorities?

Efficiency and transparency

2. In order to distinguish the effects of changing the method of allocation from the effects on the number granted, it is useful

first to discuss the effect of selling a given number of planning permissions.

3. Under the present system large scale developers applying for planning permission often have to engage in protracted bargaining with the local authority. On the face of it, selling of permission to the highest bidder should make this process more open and efficient; by ensuring that land was devoted to the most profitable uses (private) gain would be maximised. However, open auction type sales are only likely to occur where the new end-use for different plots of land is clearly defined by the planning authorities. In other circumstances, bargaining over the price and terms of sale of planning permission for individual projects between the local authority and individual developers may well continue.

4. As part of the reason for planning control is to limit damage to neighbours and others indirectly affected, external effects would need to be taken into account under the new system. This can happen to some extent now through planning gain, which can be used to compensate the community by obliging developers to make environmental improvements - or, sometimes, pay cash. If planning permissions were sold, the gains extracted from developers would all go to the local authority, which would then have to undertake any environmental improvements itself. If the negative external effects were thought to outweigh the private gains, the planning permissions would not be up for sale.

5. Local authorities might also - with good reason - want to recoup the costs falling on them as a result of granting planning permission. These include the administrative costs of operating planning control, now covered by charges under the 1980 Local Government Act, and, more importantly, the costs of the provision of infrastructure to service the development - indirectly as well as directly. It would scarcely be rational for local authorities to sell planning permission unless they recovered these costs, as well as any compensation for externalities.

6. Such arrangements have considerable attractions in principle if the sales are determined on an auction basis. The development value of land for which planning permission for change of use was granted would be maximised, subject to payment of a sum sufficient to compensate local authorities for their costs and to compensate those suffering from negative external effects. This system would be more open and so less subject to corruption and abuse of monopoly power by local authorities, than "planning gain" (which DOE wish to discourage).

7. In practice there would be problems in going over to a system of selling planning permission especially where the end-use is uncertain and the local authority needs to control the sale in order to achieve planning objectives. Open auctions may be less frequent than individual bargaining on 'planning gain' lines. No calculation of costs falling on local authorities can be completely unambiguous. Direct infrastructure costs could be estimated without too much difficulty. But valuation of external disbenefits is scarcely an exact operation. The local authority may over-use its monopoly power and deter development. There would be a number of legal and administrative issues to be dealt with including the control of local authority expenditure and the ability of local authorities to make payments to individuals affected by land development.

Volume of planning permission

8. If sale of planning permissions were to increase the supply of land for development, it would lower the price of developed land - the extent depending on the elasticity of demand for such land. There is, however, an interaction between different kinds of development; if relatively more planning permission were granted for commercial and industrial development, this could raise the price of housing land, and hence of housing, as a result of the influx of workers into the area.

9. ✓ DOE believe that the present system of planning control is discouraging development unduly. Local authorities may be

exclusively concerned with their own interests and those of their residents at the expense of wider national objectives, such as economic growth - or the interests of mobile workers. Hence when local authorities have refused planning permission, DOE have increasingly overruled them on appeal.

10. Table 1 shows this trend, and in particular the sharp rise in Section 36 planning appeals allowed in the last two years. Table 2 shows the decline in local authority planning permissions granted in the last four years for major and minor developments, and the increased delay in dealing with applications. Figures in both tables are also given for Bracknell in Berkshire, which has been identified in the recent modified Berkshire Replacement Structure Plan as one of the areas for major housing development between now and 1996. Bracknell grants significantly less planning permissions for major and minor developments than English authorities as a whole and takes longer to deal with them. As a counterbalance from central government, Section 36 planning appeals against decisions by Bracknell are more successful than the average (and this is broadly true for the other Berkshire districts).

11. A switch to sales of planning permissions will only reduce the price of housing if it leads to an increase in the number of permissions granted. This depends on:

- (i) the change in incentives to local authorities;
- (ii) the effect on the willingness of developers to request permissions - and to appeal to the DOE when they are rejected;
- (iii) the role played by DOE in the new system.

Effect on local authorities

12. It is necessary to examine this in the context of the forthcoming change in local authority finance - the switch to a

then the reasons for this

PLANNING DECISIONS AND SECTION 36 PLANNING APPEALS: ENGLAND
1976/7 - 1986/7

YEAR*	PLANNING DECISIONS		SECTION 36 PLANNING APPEALS				DECISIONS BY INSPECTORS	
	ALL DECISIONS ('000)	GRANTED (%)	ALL DECISIONS (number)	PERCENT ALLOWED	DECISIONS BY S of S NUMBER	PERCENT ALLOWED	NUMBER	PERCENT ALLOWED
1976/77	417	85	9253	29.4	2273	31.7	6980	28.6
1977/78	414	86	8366	29.2	1702	31.4	6664	28.6
1978/79	468	86	8952	28.0	1630	30.7	7322	27.4
1979/80	518	86	8933	29.1	1503	34.9	7430	28.0
1980/81	492	85	13130	30.8	1521	39.3	11609	29.7
1981/82	407	86	14451	32.7	1786	36.1	12665	32.2
1982/83	382	87	12915	31.0	1100	37.1	11815	30.4
1983/84	404	87	11221	32.4	649	35.7	10572	32.0
1984/85	399	86	11643	32.4	480	37.3	11163	31.3
1985/86	402	85	14639	37.4	755	42.4	13844	36.0
1986/87	426	85	14823	38.9	887	44.9	13936	38.5
Bracknell, 1986/87		86		61.1				

* Calendar years 1976 to 1986 for Section 36 Planning appeals.

PLANNING DECISIONS, BY TYPE OF DEVELOPMENT AND SPEED OF DECISION:

ENGLAND, 1983/4 to 1986/7

YEAR	MAJOR DEVELOPMENTS			MINOR DEVELOPMENTS			CHANGE OF USE			HOUSEHOLDER			ALL DEVELOPMENTS		
	PERCENT GRANTED	PERCENT DECIDED WITHIN 8 WEEKS	PERCENT DECIDED OVER 13 WEEKS	PERCENT GRANTED	PERCENT DECIDED WITHIN 8 WEEKS	PERCENT DECIDED OVER 13 WEEKS	PERCENT GRANTED	PERCENT DECIDED WITHIN 8 WEEKS	PERCENT DECIDED OVER 13 WEEKS	PERCENT GRANTED	PERCENT DECIDED WITHIN 8 WEEKS	PERCENT DECIDED OVER 13 WEEKS	PERCENT GRANTED	PERCENT DECIDED WITHIN 8 WEEKS	PERCENT DECIDED OVER 13 WEEKS
1983/84	81	41	29	84	62	13	78	62	11	94	79	5	87	69	10
1984/85	80	42	30	82	63	11	78	63	11	93	79	5	86	69	10
1985/86	78	40	31	81	61	14	78	61	12	93	78	6	85	67	11
1986/87	76	36	34	80	56	16	77	56	15	92	74	7	85	63	13
Bracknell 1986/87	64	24	NA	76	53	NA	76	53	NA	94	81	NA	86	67	NA

uniform national non domestic rate and a population-based revenue support grant system.

(i) Local authority financial framework

13. As Annex 1 shows, under the present system of rate support grant, those authorities in receipt of RSG are currently in the position that an increase in aggregate rateable value as a consequence of development would, broadly speaking, lead to a proportionate reduction in rate support grant. If the authority is spending at the level of grant related expenditure (GRE) it neither gains nor losses overall. If it is spending above (below) GRE, there will be a small loss (gain) of total revenue support.

14. There are, however, some authorities, including some non metropolitan districts in the South East, who will receive no grant in 1988-89. All of them would gain rate income from development.

15. Under the new RSG system local authorities will not gain local revenue from commercial and industrial development, although they will from new housing development which increases local population. There will be no withdrawal of RSG as a result of development. And if the local population increases, they will get an increase in RSG. These changes will provide a direct financial incentive to housing development but not to industrial and commercial development for which the RSG system remains neutral. Sales of planning permission would therefore provide the direct financial incentive to local authorities to encourage industrial and commercial development which is lacking in both the old and new RSG systems.

(ii) Attractions of extra revenue

16. If local authorities could sell planning permission, how attractive would the additional revenue be? This turns, first, on whether local authorities would be passive sellers without any discretion, with prices based on, say, the costs imposed on them by the development in question, or whether they would have

complete discretion, acting as a text-book monopolist, with powers to restrict sales to prevent unwanted development.

17. If there were an unregulated market for planning permission it would not be a competitive one. There might be one or two developers/landowners bidding in an auction process against each other with the local authority controlling the auction. If the demand for planning permission were inelastic, authorities would maximise their revenue from such sales by restricting the number offered, thus providing a financial incentive to reinforce their present disinclination to allow development.

18. DOE estimates the price elasticity of demand for housing as a whole in a range from 0.5 to 1.0. In the long run the numbers might well be higher as they will be for new houses. Also the elasticity of demand for housing in a particular location will be higher than in the South East as a whole. But, if rather than competing in the supply of planning permission, local authorities all behave in a restrictive way, a switch to selling permissions may not result in an increased supply.

Effect on developers

19. The effect of a switch to selling planning permission would depend on whether developers were left with sufficient incentives. DOE believe that, in some cases, the extraction of planning gain depresses the return to developers to a point where they are discouraged. Sales of planning permission should in principle avoid this if the price were less than 100 per cent of the development gain on the land. It would then be akin to a tax on development gain, like Development Land Tax and the 1967 Betterment Levy. But extraction of economic rent - and no more - is always difficult in practice, especially where there is a element of bargaining involved.

20. The 1947 development charge was a 100 per cent levy and reduced the supply of development land considerably. It was repealed in 1953. The evidence of the effect of the 1967 betterment levy was that supply of land was reduced by about 30

per cent. Land prices rose after its introduction. Analysis of the effect of the 1976 DLT on the supply and price of land is very limited. According to Goodchild and Munton (1985) the supply of development land was affected to some extent (allowing for booms and slumps in the building trade), but the effect, if any, on the price of land could not be ascertained. Its removal in 1985 was predicted to lead to a substantial increase in planning applications submitted and appeals lodged in order to extract development value. The latter seems to have happened (see Table 1).

DOE influence

21. The present number of planning permissions depends on the combination of the willingness of local authorities to grant planning permission and the willingness of DOE to overrule their refusals to do so. If a switch to sales of planning permission were linked with the granting of more discretion to local authorities, they might decide to reduce the number of permissions given (or sold). If so, DOE would find it more difficult to maintain the total number of permissions granted.

22. It is therefore arguable that sale of planning permission should be linked to a floor level of development. Sales of planning permission could then be seen as a payment to local authorities to cover the costs (infrastructure and externalities). But it would be difficult to establish an objective basis for the "right" price.

23. If, despite this, "prices", could be established, to cover such costs, it is possible to envisage an arrangement whereby local authorities become passive sellers, with little discretion, obliged to sell planning permission to anyone who pays the required prices (outside protected areas). This would have wide implications for the future of the planning system and the role of local authorities in relation to central government.

24. The price might be set in some kind of guided auction where there are minimum "prices" related to the average infrastructure unit cost of standard developments plus some standard allowance for "externalities" and maximum prices (related to the maximum amount of development gain). Since the market would not be truly competitive, with only a few buyers and one seller, the price in between the limits would be indeterminate.

25. These arrangements could be more transparent than the present "planning gain" system, and local authorities would receive an amount more clearly related to the actual costs associated with development. In theory this should remove the incentive towards corruption and abuse in the planning gain system and would ensure adequate compensation to the community for development.

26. But it leaves open the issue of the scale of development to be arrived at and the future role of local authorities in planning. And a number of practical problems would need to be resolved.

Deadweight and use of receipts

27. There would be considerable deadweight involved in selling planning permission. Payments would be made for planning permissions which would be granted anyway under the present system - where infrastructure costs can be accommodated within local authority budgets and where external costs are small. The receipts could be used by local authorities for other expenditure. This would be in effect a local tax on the development value of land.

Conclusions

28. A switch to a system of selling planning permission might increase transparency. But it is not clear that, by itself it would increase the total supply of such permits. If it led to greater local authority discretion it could even reduce supply; left to themselves, local authorities might prefer to use their monopoly power to restrict development and to maximise the prices

paid. Developers/landowners may hold back because of expectations of reductions in price or removal of the sales provision in the future.

Incentives to industrial and commercial development under the RSG system

It is essential to the case for the sale of PPs that local revenues should gain substantially. This, in turn, depends on how the new source of revenue is treated under the RSG system. It is broadly true to say that neither the present nor the post-1990 RSG systems offer a positive incentive for LAs to attract more development, and so more rateable value (RV). Under the present system an increase in RV would lead to a proportional fall in RSG since grant-related poundage and expenditure remain the same [$\text{Grant} = E - \text{GRP} \times \text{RV}$]. If the authority is spending at GRE, it neither gains or loses, in terms of overall revenue support for expenditure (grant plus rate revenue). There are second-order timing effects, in that RSG is determined on an annual cycle, and revised RV data is not fed into the machine until the next year (similarly for data on the increase in population attracted by the development, which alters the GRE assessments).

2. If an authority is not spending at GRE, there are some second-order marginal overall changes in total revenue support, since the loss in grant would not be quite equal to the increase in rate revenue (ie the LA's rate is not equal to GRP). If the authority is spending above GRE then there is a larger loss of grant than if the authority is spending below GRE. In the former case there would be some marginal loss of overall revenue support (if the LA's rate remained the same) and in the latter case the LA would gain. Bracknell in Berkshire may be taken as an example of such a LA in a county which supplies fewer PPs for housing than builders (and DOE) want. It had a rate for 1987-88 of 14.47p. Its GRP for 1987-88 was 12.29p (since its expenditure was below GRE). On this basis, a 10 per cent rise in RV would lead to a fall in grant of £186,919 and a rise in rate revenue of £220,007, an overall rise in revenue support of £33,088, or less than 1 per cent of the total 1987-88 revenue support of £3.67 million (RSG plus rates). This is clearly a very small gain in revenue support, in relation to the rise in RV.

3. There are some authorities, however, which will receive no grant in 1988-89. These are ILEA, Camden, Westminster, Kensington and Chelsea, City plus the following non-metropolitan districts:- South Bucks, Chiltern, Ellesmere Port, Basildon, Harlow, Thurrock, Stevenage, Welwyn and Hatfield, Daventry, Selby, Bassetlaw, Elmsbridge, Epsom and Ewell, Reigate and Banstead, North Warwicks and Crawley. All these authorities would gain substantially now from a rise in rateable value since they have no grant to lose. Most of these districts are near London and have lost grant because of their very high rateable values, not because of overspending. If they are greatly in need of an additional source of revenue, then the sale of planning permissions would be attractive now, especially since these LAs would not gain anything, in terms of continuous current revenue, from developments started now but producing RV after 1990. When the community charge (CC) is introduced, there are unlikely to be any LAs out of grant, since needs for services go with population, so the Bracknell example above is the only relevant one for the post 1990 period.

4. The new RSG system contains few new incentives for LAs to attract commercial and industrial development. If new non-domestic rateable value is attracted, the LAs gain nothing, in overall revenue support terms, since non-domestic rate revenue will be pooled nationally and allocated to LAs as part of RSG on a per-capital basis. The resource base for RSG allocation will be population instead of RV, but increases in population will lead directly to an increase in overall revenue support, in contrast to increases in RV under the present system. Some grant will be distributed according to assessed needs per head (needs grant); a standard per capita grant will also be paid (in addition to the per-capita non-domestic rate grant). If population increases then grant payments will rise. A rise in development will only lead to increased grant if it attracts new resident population, though.

5. Any new industrial and commercial development under the new RSG system will penalise LAs if it does not attract new resident population (and so increased grant and CC revenue), since the demand for local services will increase (capital demands on other bodies, such as water authorities, health authorities, electricity and

gas etc will also increase, but the consumer/taxpayer will fund these). There may therefore be continued pressure on LAs, as under the present RSG system, to bargain with developers for "planning gain" and extract a monopoly price, so as to protect residents from higher community charges. The sale of PPs could be attractive as an alternative. Mixed developments, including housing, will be favoured over purely commercial developments under the new RSG system.

6. If national income is growing strongly, there will be high demand from industrial and commercial developers for a limited supply of land in a particular LA area. This will attract population into that area, but there will be no land left for housing. Consequently rising demand for existing houses will force up their price. The result of an increase in industrial and commercial development, if facilitated by sales of PPs, could therefore be higher house prices in the locality. In general, however, the bias in favour of mixed development in the new RSG system is likely to increase the share of housing in total development.

7. For all these reasons, industrial and commercial development does not bring net financial advantage under the present RSG system (except for those out of grant or under the new system. Income from the sale of PPs would do so, especially if treated as current receipts. It would then be akin to "fees and charges" income, and so would not be offset by less grant. If it was treated as capital receipts, the benefit to the community would be perhaps more indirect. [It is not yet clear how the proposed new LA capital control system will work].

CONFIDENTIAL

Wopris walked

to M'Entyre
CST
Mr Phillips

Ch/ just arrived. Officials will give urgent comments to CST in time for his 12.00 meeting at

Introduction to Announcements

No 10. DHSS warn us there may be further amendments. I have said all changes must be cleared with HMT.

Since the introduction of the new housing benefit scheme, hon Members have raised a series of concerns about how some aspects of the scheme have worked in practice. I wish to respond to those concerns now in a number of ways which I believe recognise the most serious difficulties experienced at the time of the changeover.

Capital Limit

to.....

The issue which has been most often mentioned in public discussion of the new housing benefit scheme is the capital rule. Most people accept the need to ^{take} measure capital ^{at account} and to have some limit. But the problem is a difficult one even given that general agreement.

None of us wishes to discourage people from saving. Yet ^{it is} ~~none of us~~ wishes to give the impression ^{clear way} that the taxpayer should be expected to pay the rents and rates of people who are far from being poor and who ought to draw on their own reserves before turning to their fellow citizens. The question is ~~all about what degree of cushioning it is reasonable to expect people to live with.~~

A few specific points.
Poor in general,
v. poor, unemployed,
dependants, unproductive -
needs complete state

White to line
shd be drawn.

(we shd include no
formal Nat Councils as
part of the solution by
extensive analysis in rates (x sometimes
top) distribution @ x

Further DASS
amendment

I recognise in particular that the £6000 limit has remained unchanged since it was first proposed in 1985 and the House may have expected it to move in line with inflation, ^{had it risen} that would produce a figure of £7000 today. In fact I propose to go beyond that and to introduce for housing benefit alone a capital limit of £8000. This will be effected by a change in the regulations on which we will quickly consult the local authorities so that it can come into effect as soon as possible. We estimate that this will bring back onto housing benefit 100,000 people who were made ineligible by the £6000 rule. It will cost some £30 million.

We shall arrange for the capital limit to apply as though it had been introduced at the £8,000 level on 1 April. That means that those with savings between £6,000 and £8,000 who have been excluded by the capital rule from housing benefit will have their full entitlement backdated.

creates
expectation
of further
uprating

Right. Now do!
Scheme available
for 1985- had produce
an amount in £7000.

Disposal of Property

There is a second question concerning capital where I believe a change is merited. Under the new regulations a person entering an ~~care home~~ ^{old people's} is excluded from income support from the moment they become resident if their former home ~~is worth more than £6,000.~~ ^{take more cap in}

Sound that is in compliance with a cut (usu.) limit?

The thinking behind the change is sound. The old system was wide open to abuse by those, perhaps the families of claimants, who made little effort to sell the home while the taxpayer paid large sums to cover the care home fees. In ^{at least} one instance the property remained unsold for 10 years.

dead

~~But the new regulation is too inflexible, and we must have regard for the genuine difficulties which some elderly people have faced. I cannot return to the previous position of laying the taxpayer open to exploitation. But I do propose to relax the regulation so as to allow people six months in which to dispose of their property. In exceptional circumstances of genuine difficulty, that time could be extended. Such judgements will be for adjudicators subject to the usual appeals procedures. The regulations will be introduced soon, but local offices can make payments as though this relaxation had been in force since April 11th.~~

The House will know that we have already acted so as to ensure that where, for example, a wife has to leave the marital home because the marriage has broken down, she will not be excluded from benefit because her share of the home is worth more than £6,000. She too will have 6 months to extract her capital from the home.

Transitional Scheme

These measures are important but not in themselves sufficient to deal with the difficulties of which we are aware.

I therefore ask of ministers ^{in the form of a written answer} help for those who have lost their ~~large sums in housing benefit~~ because of the interaction of various parts of the new scheme.

One of the important factors has been the ending of most local authority discretion to run different schemes of housing benefit.

That decision was right. It cannot be fair that in different parts of the country different rates of benefit should be paid and different rules applied. That had to end as part of the reforms, although of course we have left it to local authorities to maintain the most widely-used discretion in respect of war pensioners and war widows.

Other large losses have occurred through the ending of the old housing benefit supplement, through the operation of new tapers and where people's benefit is based on lower needs allowances than before. P We think it right to ease the transition in these cases.

*It's like that
too much. Are we
going to stop doing
authorities for
for I was given cheap
pensioners - a practice
that was written
authorities to
Best to remove
that was
recommended by
inquiry.*

1080
24/1/71

X | We do not think that we should compensate the losses brought about by the new requirement to pay 20 per cent of rates. That would cut across our firm purpose to increase local authority accountability. Nor would it be right to compensate for reductions in benefit caused by the new £8,000 capital limit. Least of all should we compensate for those increases in rents and rates introduced to coincide with the new housing benefit scheme.

But we do intend to offer transitional help to those affected by the changes to the scheme, including the ending of local authority discretion.

I propose to make good those housing benefit losses in excess of £2,50 per week which have affected pensioners, disabled people, families with children and lone parents. We estimate that perhaps 300,000 people will benefit from this. We will be spending an extra £70 million in this way, *made from all.*

The payments, with a minimum of 50p per week, will be made by my Department through a new central unit, in order to provide the quickest and most efficient response to cases. Clearly it will be some weeks before such a unit can be operational but I can give the House an assurance that the transitional arrangements will deal with the losses to the relevant groups which have occurred since 1 April. In other words any payments will be backdated to 1 April.

This proposal, I believe, meets the concern which has been emerging at constituency surgeries. It is that despite the substantial improvement in the structure of housing benefit, the change for people who are used to a particular level of help is too abrupt. And that we must act to stop losses which for some represent too high a proportion of their total income. I am confident that we have found the means to tackle that concern effectively.

PERORATION

Mr Speaker, the social security reforms which came into effect a few weeks ago have created a fairer, a simpler and a better directed system than anything seen before in this country. Overall the vast majority of claimants will be better off or will get the same as before.

*Will be
laughed
out of
court*

We are a responsible Government. That is why we have kept a careful eye on the point of implementation of the reformed scheme and have moved quickly to alleviate the difficulties created for some individuals by a number of factors.

I have announced today an increase in the capital limit, a relaxation of the rules governing disposal of property and - very importantly - a scheme of transitional help to those who have faced large losses.

Mr Speaker, the package of measures I have just announced will add a further £100 million to the largest ever social security budget. Nothing could better show this Government's commitment to those who need to look to us for help. And because of our very successful management of the economy we have been able to respond - to the tune of £46 1/2 billion a year. I commend the amendment to the House.

From the House

NO: we want whole No House approval of No Soc. Sec. Reform package. (and) with that.

CONFIDENTIAL

FROM: D R INSTONE

DATE: 22 March 1988

CHIEF SECRETARY

cc **Chancellor**
Sir P Middleton
Mr Anson
Mr Phillips
Mr Hawtin
Miss Peirson
Mr Turnbull
Mr McIntyre
Mr Potter
Mr Betenson o/r
Mr Deaton
Mrs Holmans
Mr Perfect
Mr Call
Mr Tyrie

E(LF) ON HOUSING - 24 MARCH

I attach briefing on Mr Ridley's papers on:-

- (a) LA housing finance.
- (b) Criteria for privatisation of LA housing.
- (c) "A Landlords Code".

2. If you want to discuss this before E(LF) you should probably have Mr Potter and Mr McIntyre present as well as me.

D R INSTONE

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NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING - E(LF)(88)3

SPEAKING NOTE

1. Sub-Committee should examine Secretary of State's proposals in two parts: (a) case for ring-fencing LA housing accounts and the treatment of capital receipts for authorities who have not disposed of all their stock; (b) case for extra financial incentives to encourage wholesale disposals (as in paragraphs 15-17 of paper).
2. On the revenue side, I broadly welcome the "ring-fencing" proposals, especially the greater control over rents; it will help pave the way for privatisation. But Treasury has not yet agreed the financial implications. This is important, because the prospects for disposals will be best if rents are higher; but that will substantially increase costs of housing benefit and could also increase number of HB recipients (already 1 in 3 households). Financial balance of proposals is not yet clear. In Annex E of paper we only have global NPV figures, and not a year by year cash break down showing PES effects.
3. I also have reservations about proposal (paragraph 7) that when LAs' housing accounts are in deficit the Exchequer should make this up rather than sharing the cost with the Community Charge paper. Wrong to assume that cost sharing will make no practical difference. Suggest this too should be further considered by Sub-Committee.
4. So we cannot yet tell what public expenditure savings - if any - will result from proposals, or what extra costs will fall on DHSS through housing benefit. DOE, Treasury and DHSS officials should consider further and Mr Ridley report back to Sub-Committee on financial effects before ring-fencing proposals firmly agreed.

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5. Strongly support policy of getting housing stock away from local authorities, but much more work needed on schemes for wholesale disposals (ie (b) above). Until further work done, cannot tell how incentive scheme can be made most cost-effective and how far it would be appropriate to rely on administrative means rather than financial incentives to achieve objectives.

6. Curious pattern in Secretary of State's proposals for treatment of housing receipts. For authorities which have only disposed of part of their stock, assumes that all accumulated housing receipts and 90% of receipts after April 1990 would be unavailable for spending (see paragraphs 11 and 12). When an authority has sold the last house some or all of the reserve could be spent or invested at the discretion of the authority (paragraph 15). I share Secretary of State's doubts that this may not be a very well targeted incentive (see paragraph 16).

7. Shire Districts who have sold housing in good condition may have nothing much to spend this enormous unfrozen reserve on; it is not clear why authority giving up one public service should be able to spend proceeds on another. But for inner cities the incentive effects could be much less, since the value of their receipts will probably be smaller after outstanding debt has been repaid. I think all this needs to be looked at more carefully by officials before reporting back to the Sub-Committee.

8. Must have further work done on cost-effectiveness of alternative schemes to provide incentives for disposals.

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NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING - E(LF)(88)3

BACKGROUND NOTES

Mr Ridley's Proposals

1. To ring-fence housing revenue accounts (paragraphs 6-8). This would prevent LAs subsidising their housing accounts from their general funds. Instead DOE would set guideline figures for rents and for management and maintenance. For authorities in deficit subsidy would be set on the assumption that the guideline figures would be held to. Authorities in surplus on the basis of these guideline figures would have to make a required minimum payment (RMP) into their general fund. (For administrative convenience this RMP would be netted off other Government grants (eg RSG and housing benefit subsidy) payable to the general fund.)

2. A tough regime for dealing with capital receipts for LAs who have not disposed of all their housing stock. Under these arrangements:-

(a) All accumulated receipts as at 1 April 1990 would be used to pay off outstanding debt and any surplus put in a frozen "reserve" (paragraph 11).

(b) After April 1990 10% of in-year receipts would be available for new capital expenditure; the remaining 90% would be used, like the accumulated receipts, first to pay off housing debt with any surplus held in the frozen "reserve".

3. Mr Ridley suggests further incentives to encourage LAs to dispose of their entire housing stock. In the paper he does not ask for agreement to a specific scheme (see paragraphs 15-17). But we know from discussion with DOE officials that he has in mind arrangements under which some or all of the frozen "reserve" of receipts from earlier RTB etc sales (and the net receipts

from the final wholesale disposal) would be available for capital spending within the normal new capital control arrangements. This would be after any further outstanding loan debt had been paid off.

4. Mr Ridley wants to legislate for all this next Session, to come into operation in April 1990. But he wants the policy agreed quickly so that he can issue a consultation document. For the period up to 1990, he would rely on the arrangements set out in the next paper on criteria for privatisation of LA housing stock.

5. DHSS are likely to support further work before decisions taken and to press for assurances that any extra HB costs are met by DOE transfers or Treasury and not from offsetting savings on social security.

Comment

6. The main difficulties about the proposals are as follows:-

A. Generally Mr Ridley has been rushing these proposals through, and we have had very little time indeed to assess the full implications, including financial consequences. The paper has no financial assessment of wholesale disposals (Annex E covers ring-fencing only and assumes no disposals).

B. The ring-fencing proposals in themselves are broadly welcome. They help to encourage LAs to get rents to more commercial levels and discourage subsidies from their general funds. But the only financial assessment of this is in Annex E, which is inadequate because:-

(i) The figures are only in NPV terms, not year by year cash terms. DOE think that the effects would not be very different between years; but we have only their word for that.

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(ii) The housing benefit increases have not been fully discussed with us or DHSS. In principle, ring-fencing might make no difference to HB costs; these will depend on rent increases. But the new system would give DOE much more influence over rents, and it is an important part of Mr Ridley's plans to promote large-scale disposals. Therefore pressure for higher rents is likely to be greater than under present policies if privatisation of housing stock is pursued with vigour. They also depend on whether more people would come into housing benefit as a result of higher rents, which does not seem to have been allowed for. The Annex E figures show the rent rebate element of housing benefit increasing over 30 years in NPV terms by up to £15½ billion, compared with an £8½ billion increase if the present system continued (DOE say the current figure for rent rebates on this NPV basis is around £20 billion over the next 30 years, so they are envisaging an increase of 75% or so over the whole period). But there is a very big margin of uncertainty.

(iii) The first 7 lines of Annex E look as though they are talking about public expenditure. In fact they are not, and would be wrong if they were. This is mainly because line 6 (RMPs - required minimum payments from housing account to general fund) is not negative public expenditure, but income, under present definitions. You only get a reduction in public expenditure when the RMP and the consequential reduction in grant lead to a reduction in LAs' actual expenditure - which is what the footnote to the table assumes. But this is a very dubious assumption.

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C. The proposals assume without much argument (paragraph 7) that any deficit on the housing accounts should be borne by the Exchequer through Housing Subsidy rather than the Community Charge payer. This is open to question.

There is no reason why this burden should fall wholly on the taxpayer, rather than being shared with local chargepayers: the local council should bear some part of the responsibility for the deficit, which will often reflect inefficient management. DOE argue that a chargepayer contribution will only complicate the administration of HRAs and have little practical effect on who pays. But this is because they envisage revenue support grant payments to local authorities in support of their contributions to the HRA. We do not accept that chargepayers' contributions represent a "need to spend" by a local authority that should be reflected in RSG: rather they would be a financial payment towards the costs of Housing Subsidy. We propose that there should be a burden-sharing arrangement for Housing Subsidy: the precise sharing of the burden between taxpayer and chargepayer will need to be considered further.

D. The treatment of capital receipts for LAs who have not disposed of all their stock are severe, much more so than under the general proposed new capital control system. It means there is all the difference in the world between the effect on an LA who has disposed of nearly all his stock and on one who has disposed of the whole lot: this might well not be sustainable. Moreover, the proposals may make the new capital control regime itself less saleable (see separate brief).

E. It is unclear whether there can be a cost-effective scheme of financial incentives to encourage wholesale disposals. Mr Ridley's tentative ideas (see above) would give differential incentives to different authorities, depending on:-

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(i) How encumbered with debt the stock was - the more it was encumbered the greater the incentive, because Government would pay off the outstanding debt if necessary.

(ii) The level of receipts after payment of debt, because Mr Ridley is assuming LAs could keep all or some of these.

(iii) Effectiveness will also vary. Giving Metropolitan Districts with high unmet needs access to extra receipts is more defensible than giving receipts to Shire Districts who build yet another heritage centre, etc.

So LAs with high debt and/or high proceeds after debt would do best under the arrangements, while LAs with low debt but low proceeds (eg old but unmaintained stock) would do worst. There is clearly a political problem in fine-tuning a system without seeming to "get at" individual authorities. But Mr Ridley does not seem to have acknowledged these differences.

F. Mr Ridley does not discuss how far there are alternatives to financial incentives in order to achieve the objective of bringing about disposals. Compulsion is a possibility - but would give rise to political and practical difficulties. But many authorities would for philosophical reasons be willing to withdraw from providing housing rather than enabling housing needs to be met, provided there is no financial disincentive. There are administrative economies and benefits to chargepayers.

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PRIVATISATION OF LOCAL AUTHORITY HOUSING - E(LF)(88)4

SPEAKING NOTE

1. Concerned that my officials have not been consulted about this paper, despite earlier assurances that they would be. Paper contains no costings.
2. Understand that Secretary of State wants to give some idea of criteria when introducing amendments to Housing Bill at Report Stage. But amendments are in very general terms, and Secretary of State does not need to go into precise detail then. In any case there is a month before then to agree main points.
3. Agree importance of independence of new landlords from council (Annex A, paragraph 2). Real danger of creating LA housing departments by another name. 20% maximum council representation arguably too high. Broadly accept presumption against monopoly (paragraph 5).
4. Proposal (paragraph 6) that Secretary of State must not give consent to disposal if majority of tenants in an LA appear to oppose it could be major constraint: quite likely, at least initially, tenants will oppose for fear of unknown. Is this workable?
5. Financial implications of idea of contracts between LAs and new private landlords to provide accommodation to homeless (paragraph 9) have not been worked out and could be substantial. Must be clear if such contracts are workable.
6. Much more discussion needed with my officials on terms of sale. No financial implications given of allowing payments over a period of years (paragraph 14). Particularly concerned about allowing local authority finance through council mortgages (paragraph 16); this would dilute effects of privatisation.

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7. Cannot accept without more discussion proposals (paragraph 19) for allowing local authorities to use 20% of surplus receipts from wholesale disposals. These could be very large sums, for which capital control system was not designed to cope. Major windfall for Shire Districts who may not have much else on which to spend the money once housing removed.

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PRIVATISATION OF LOCAL AUTHORITY HOUSING - E(LF)(88)4

BACKGROUND NOTES

Mr Ridley's Proposals

1. Mr Ridley proposes to issue detailed criteria for giving consent - as he will be able to do under amendments to the present Housing Bill - to the sale of councils' entire housing stock. The main elements of the proposed criteria are:-

(i) The Council should have no more than a minor involvement with the purchaser - eg up to 20% board membership (paragraphs 2-3).

(ii) The purchaser should be a body in "good standing" (paragraph 4).

(iii) Stocks of large councils should be sold to more than one purchaser (paragraph 5).

(iv) Tenants must be properly consulted before sale and the transfer must not be opposed by the majority (paragraphs 6-8).

(v) Councils must deal with their remaining statutory duties - especially by contracts with the purchasers to provide accommodation for the homeless (paragraphs 9 and 10).

(vi) The purchaser should be free to take on what staff he wants (paragraph 11).

(vii) On terms of sale (paragraphs 12-20) the main proposed features are:-

(a) the sale should be at market value subject to tenancy, but with an allowance for "catching up" repairs (paragraph 13);

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(b) difficulties about obtaining the necessary finance should be dealt with by allowing the purchasers to pay by instalments (paragraph 14) and by allowing some of the finance to come from local authorities themselves through mortgages (paragraph 16);

(c) receipts from wholesale disposals would be subject to the normal capital control system, which is probably generous but is discussed in the earlier paper on housing finance in more detail (paragraph 19);

(d) outstanding debt not covered by the proceeds of sale would be met through housing subsidy.

(viii) It seems likely that Mr Ridley would envisage most of these criteria continuing indefinitely and not just until the new financial regime came into force in 1990.

Comment

2. See Speaking Note for main problems with these proposals. The essential difficulties are:-

(a) no costings;

(b) majority of tenants needing to agree looks restrictive;

(c) terms of sale could imply a significant council financial interest in the purchaser;

(d) arrangements for payment by instalments may unnecessarily depress receipts and have not been examined in detail;

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(e) proposals have not been discussed with Treasury - so consultation needed on basic principles, not just on fine print. Mr Ridley may have to be less than fully specific when explaining what he has in mind in introducing (very general) amendments to Housing Bill at Report Stage in late April.

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A LANDLORDS CODE - E(LF)(88)5

SPEAKING NOTE

1. Can see political case for encouraging socially responsible landlords. But each restriction we put on landlords will have major financial consequences and depress Exchequer receipts from disposals. So should not take decisions on content of Code until financial assessment carried out.
2. In any case the Peterborough/New Town example (paragraph 3) - where the overwhelming majority of tenants were against transfer - suggests even a Landlords Code may not be enough to win political acceptance. So we could lose substantial financial benefits without gaining political ones: the worst of both worlds.
3. The proposals in the Annex to the paper look very restrictive. For example:-

(a) The Secretary of State appears to envisage (paragraph 1.3) substantial restrictions on the ability of landlords who take over public stock subsequently to sell the stock on to other landlords - indeed this seems almost inevitable if the subsequent landlords also have to abide by the Code. This will very significantly depress disposal prospects and sale proceeds.

(b) The restrictions on rents (paragraph 3.1) will also substantially depress disposal prospects and proceeds.

(c) Idea that "landlords should formulate and publish clear policies ... for maintenance and repair" is curious: publication does not guarantee work, but again will tend to depress sale prospects.

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4. Because of substantial reservations, think that Sub-Committee should not agree at this stage to need for a Landlords Code without further work being done on financial and other effects.

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A LANDLORDS CODE - E(LF)(88)5

BACKGROUND NOTES

Mr Ridley's Proposals

Mr Ridley proposes that there should be a new "Landlords Code" applying particularly to landlords taking over stock from public bodies, including local authorities, Housing Action Trusts, New Towns and under tenants' choice - it would also apply to registered housing associations.

2. Part of the Code would require them to comply with the criteria for sale of stock by local authorities, as set out in the previous paper.

3. But a number of additional requirements of the code are set out in the "illustrative" Annex A. This is not at all clearly expressed; but the measures there look quite far-reaching and include:-

(i) taking account of "housing needs and conditions in their area" in granting of tenancies;

(ii) taking account of "best practice" in housing the homeless;

(iii) seemingly restrictions on the proportion of stock which can subsequently be sold for owner-occupation (this looks like a major constraint);

(iv) offering tenancy agreements with model clauses;

(v) "dwellings provided with grant assistance or transferred from a public landlord should be let at rents below market levels; landlords should not discriminate in their rent-setting between tenants in receipt of housing benefit and other tenants" - this is all a further major restriction;

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(vi) publishing clear policies on maintenance and repair.

Comment

4. You might question quite hard whether these kinds of restrictions are really necessary. The restrictions on subsequent disposals and rents, in particular, look like a major inhibition to private landlords (though rents restrictions would be helpful in restraining HB costs). Earlier correspondence suggests that both the Prime Minister and the Secretary of State for Scotland have reservations as well.

5. You could point out that the new BES scheme for private renting should provide some incentive without the need for these further restrictions.

6. The Code has not been discussed with Treasury officials - as your letter of 26 February - copy attached specifically said it should be.

7. No financial effects are shown. And we have no idea what difference these proposals will make to the pace of disposals compared with a looser set of criteria.

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h8

- cc: PA
- PS/Chancellor
- Mr Anson
- Mr Phillips
- Mr Betenson
- Mr Instone
- Mr Hawtin
- Mr Potter
- Mrs Holmans
- Miss Haskins
- Mr Call
- Mr Tyrrie

Treasury Chambers Parliament Street SW1P 3BQ

The Rt Hon Nicholas Ridley AMICE MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London
 SW1P 3EB



February 1988

**PRIVATISATION OF LOCAL AUTHORITY HOUSING:
 AMENDMENTS TO THE HOUSING BILL**

Thank you for copying to me your minute to the Prime Minister of 22 February.

Like you I welcome the prospect of major disposals of local authority housing stock to the private sector, providing we can ensure that successor landlords (in general often housing associations) are truly independent. I agree in the circumstances that it would seem sensible to legislate now to make clear that wholesale disposals are legitimate and to ensure that we have the means of controlling them properly whenever they are proposed.

Your general suggestions as to possible criteria for giving consent to individual sales represent a useful initial run through the issues. However, like you, I regard ensuring the independence of successor landlords, the terms of sale, and the financial arrangements (including any continuing public sector commitments) as of crucial importance in assessing our attitude to individual sales, and as areas where considerably more work is required. Given the need to pre-empt proposals for sales which are already well advanced, I accept that these detailed questions will need to be taken forward alongside rather than in advance of legislation. I am grateful for your assurance that you recognise the need for further consultation and I assume that your officials will be keeping closely in touch with mine on the work that is

X/

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required. In advance of that work I do not think we should assume that our agreement to legislative change should lead to a presumption that we will be willing to consent to any particular disposal which may be proposed.

I am copying this letter to the Prime Minister, Members of E(LF), David Waddington, First Parliamentary Counsel and Sir Robin Butler.

JOHN MAJOR



Handwritten initials

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

CH/EXCHEQUER	
REC.	22 MAR 1988
ACTION	CST
COPIES TO	

2213

22 March 1988

Dear Nicholas,

NEW HOUSING FINANCE REGIME

We are due to discuss at E(LF) on 24 March your proposals for a new financial regime for local authority housing.

I join John Major in warmly welcoming your proposals in principle. But I also join with John in seeking more information and analysis of the financial consequences of your proposals, before decisions are taken.

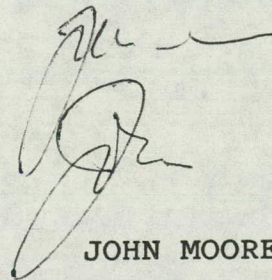
My main interest is, of course, in the implications for housing benefit expenditure. I do not regard the information contained in the paper as being sufficient to enable us to come to a proper collective judgement. Your officials have agreed to provide mine with a more detailed financial assessment setting out the year by year position in cash terms, and including also the likely impact of the move to greater privatisation of the council housing stock. I look forward to receiving that and to receiving firm proposals as to how the increased costs for housing benefit are to be met.

My concern is not solely about costs. Your proposals are also likely to lead to a significant increase in the numbers of people receiving housing benefit. This cuts across what we are trying to do to reduce dependency upon social security benefits. I don't think that this is in itself a reason not to proceed with your proposals, but we need collectively to be aware of this unwelcome consequence for one of the main features of our social policy.

E.R.

You have also tabled proposals for a landlord's Code (E(LF)88/5). I recognise that your work on this is at an early stage. I am concerned, however, that, even when taken with your proposals relating to the conditions for disposals (E(LF)88/4), there seem to be no arrangements for preventing rents rising to full market levels. This will again drive up housing benefit expenditure. More generally, your proposals contain no effective way of enforcing compliance with the Code except possibly for those landlords falling under Housing Corporation controls. This is a gap which the unscrupulous will be quick to exploit.

I am sending copies of this to other members of E(LF) and to Patrick Mayhew and Sir Robin Butler.

A handwritten signature in black ink, appearing to be 'John Moore', written in a cursive style. The signature is positioned above the printed name 'JOHN MOORE'.

JOHN MOORE



mp

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

CH/EXCHEQUER	
REC.	23 MAR 1988
INDEXED	CST
COPIES TO	

23/3

The Rt Hon Nicholas Ridley MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 LONDON
 SW1P 3EB

23 March 1988

Nicholas

NEW HOUSING FINANCE REGIME AND HOUSING BENEFIT

In my letter of yesterday's date I emphasised the importance I placed, in common with the Chief Secretary, on the provision of more information on the financial implications of your proposals particularly in respect of housing benefit expenditure.

My concerns on these issues parallel of course the points you have raised previously on the current division of responsibilities between our departments for housing finance and for housing benefit and the way this affects the handling of our respective PES discussions. Our officials together with representatives from the Treasury, Cabinet Office, and the Scottish and Welsh Offices have been examining ways of improving the co-ordination of government policies in this area including the case for a transfer of some of my Department's current responsibilities to the Department of Environment and the Scottish and Welsh offices.

These discussions are very relevant to the further development of your new housing finance proposals as one of the key issues will be how the balance sheet of expenditure which currently crosses departmental budgets can best be planned, agreed and controlled.

I understand that the officials' report can be with us by the end of the week. Accordingly I propose that we should meet as soon as possible to consider the report while work continues on the financial implications of your papers to E(LF).

I am copying this letter to the Prime Minister, other members of E(LF), to Patrick Mayhew and to Sir Robin Butler.

John Moore
 JOHN MOORE

FROM: MARK CALL
DATE: 25 MARCH 1988

CHANCELLOR

1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30. 31. 32. 33. 34. 35. 36. 37. 38. 39. 40. 41. 42. 43. 44. 45. 46. 47. 48. 49. 50. 51. 52. 53. 54. 55. 56. 57. 58. 59. 60. 61. 62. 63. 64. 65. 66. 67. 68. 69. 70. 71. 72. 73. 74. 75. 76. 77. 78. 79. 80. 81. 82. 83. 84. 85. 86. 87. 88. 89. 90. 91. 92. 93. 94. 95. 96. 97. 98. 99. 100.

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Cropper
Mr Tyrie

DEFINITION OF CAPITAL FOR HOUSING BENEFIT ENTITLEMENT

At a recent meeting of Ministers and Advisers you asked us to look at the new capital rules for entitlement to Social Security benefits. I have received the attached from Andrew Turner.

2. At a first reading the definitions of capital to be included in the calculation, and that to be disregarded seem sensible. In particular, it is clearly right to disregard the surrender value of any policy of life insurance, about which Peter Cropper was concerned (paragraph 15).

3. Particularly difficult however, will be the concept of "notional capital" described in paragraph 43 of the General Regulations (page 31) which should be read together with paragraph 11 on page 68. This says that a claimant shall be treated as possessing capital of which he has deprived himself for the purpose of securing entitlement to Income Support or increasing the amount of the benefit. The burden of proof of intention is clearly going to be contentious, especially since the value of the rights to receive any income under an annuity and the surrender value is to be disregarded (paragraph 12). The new capital rule could lead to the development of annuity products aimed at pensioners with the objective of reducing their capital for HB purposes.

4. The regulations for determining entitlement to FC and IS are virtually identical.

Mc

MARK CALL

1 July 1988 400
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STATUTORY INSTRUMENTS

1987 No. 1971

HOUSING, ENGLAND AND WALES
HOUSING, SCOTLAND
RATING AND VALUATION

The Housing Benefit
(General)
Regulations 1987

Made - - - -

20th November 1987

Coming into force

for the purposes of all the regulations to the
extent they relate to cases referred to
in regulation 1(1)(a) and (2)

1st April 1988

for all other purposes

4th April 1988



LONDON

HER MAJESTY'S STATIONERY OFFICE

£6.80 net

(b) that person makes no payment of earnings or pays less than that paid for a comparable employment in the area; and

(c) the appropriate authority is not satisfied that the means of that person are insufficient for him to pay or to pay more for the service,

the appropriate authority shall treat the claimant as possessing such earnings (if any) as is reasonable for that employment; but this paragraph shall not apply to a claimant who is engaged by a charitable or voluntary body or is a volunteer if the appropriate authority is satisfied that it is reasonable for him to provide his services free of charge.

(6) Where a claimant is treated as possessing any income under any of paragraphs (1) to (4) the foregoing provisions of this Part shall apply for the purposes of calculating the amount of that income as if a payment had actually been made and as if it were actual income which he does possess.

(7) Where a claimant is treated as possessing any earnings under paragraph (5) the foregoing provisions of this Part shall apply for the purposes of calculating the amount of those earnings as if a payment had actually been made and as if they were actual earnings which he does possess except that paragraph (3) of regulation 29 (calculation of net earnings of employed earners) shall not apply and his net earnings shall be calculated by taking into account those earnings which he is treated as possessing, less—

(a) an amount in respect of income tax equivalent to an amount calculated by applying to those earnings the basic rate of tax in the year of assessment in which the claim was made less only the personal relief to which the claimant is entitled under sections 8(1) and (2) and 14(1)(a) and (2) of the Income and Corporation Taxes Act 1970 (personal relief) as is appropriate to his circumstances; but, if the assessment period is less than a year the amount of the personal relief deductible under this sub-paragraph shall be calculated on a pro-rata basis;

(b) an amount in respect of primary Class 1 contributions payable under the Social Security Act in respect of those earnings; and

(c) one-half of any sum payable by the claimant by way of a contribution towards an occupational or personal pension scheme.

Modifications in respect of child and young person

36.—(1) Where the income of a child or young person calculated in accordance with the foregoing provisions of this Part exceeds the amount included under Schedule 2 in the calculation of the claimant's applicable amount for that child or young person by way of the personal allowance and disabled child premium, if any, the excess shall not be treated as income of the claimant.

(2) Where the capital of a child or young person, if calculated in accordance with Chapter VI in like manner as for the claimant, except where otherwise provided, would exceed £3,000, any income of that child or young person shall not be treated as income of the claimant.

(3) In calculating the net earnings or net profit of a child or young person there shall be disregarded any sum specified in paragraphs 13 and 14 (in addition to any sum which falls to be disregarded under paragraphs 11 and 12) of Schedule 3.

(4) Any income of a child or young person which is to be disregarded under Schedule 4 shall be disregarded in such manner as to produce the result most favourable to the claimant.

CHAPTER VI

CAPITAL

Capital limit

37. For the purposes of section 22(6) of the Act as it applies to housing benefit (no entitlement to benefit if capital exceeds prescribed amount), the prescribed amount is £6,000.

Calculation of capital

38.—(1) For the purposes of Part II of the Act as it applies to housing benefit, the capital of a claimant to be taken into account shall, subject to paragraph (2), be the whole of his capital calculated in accordance with this Part and any income treated as capital under regulations 27(2) and 40 (treatment of charitable or voluntary payments and income treated as capital).

(2) There shall be disregarded from the calculation of a claimant's capital under paragraph (1), any capital, where applicable, specified in Schedule 5.

Disregard of capital of child or young person

39. The capital of a child or young person who is a member of the claimant's family shall not be treated as capital of the claimant.

Income treated as capital

40.—(1) Any annual bounty derived from employment to which paragraph 6 of Schedule 3 applies shall be treated as capital.

(2) Any amount by way of a refund of income tax deducted from profits or emoluments chargeable to income tax under Schedule D or E shall be treated as capital.

(3) Any holiday pay which is not earnings under regulation 28(1)(d) (earnings of employed earners) shall be treated as capital.

(4) Except any income derived from capital disregarded under paragraphs 1, 2, 4, 7 or 13 of Schedule 5, any income derived from capital shall be treated as capital but only from the date it is normally due to be credited to the claimant's account.

(5) In the case of employment as an employed earner, any advance of earnings or any loan made by the claimant's employer shall be treated as capital.

Calculation of capital in the United Kingdom

41. Capital which a claimant possesses in the United Kingdom shall be calculated—

(a) except in a case to which sub-paragraph (b) applies, at its current market or surrender value less—

- (i) where there would be expenses attributable to sale, 10 per cent; and
- (ii) the amount of any incumbrance secured on it;

(b) in the case of a National Savings Certificate—

- (i) if purchased from an issue the sale of which ceased before 1st July last preceding the date on which the claim is made or treated as made, or the date of any subsequent review, at the price which it would have realised on that 1st July had it been purchased on the last day of that issue;
- (ii) in any other case, at its purchase price.

Calculation of capital outside the United Kingdom

42. Capital which a claimant possesses in a country outside the United Kingdom shall be calculated—

(a) in a case where there is no prohibition in that country against the transfer to the United Kingdom of an amount equal to its current market or surrender value in that country, at that value;

(b) in a case where there is such a prohibition, at the price which it would realise if sold in the United Kingdom to a willing buyer,

less, where there would be expenses attributable to sale, 10 per cent and the amount of any incumbrance secured on it.

Notional Capital

43.—(1) A claimant shall be treated as possessing capital of which he has deprived himself for the purpose of securing entitlement to housing benefit or increasing the amount of that benefit.

(2) Except in the case of—

- (a) a discretionary trust; or
- (b) a trust derived from a payment made in consequence of a personal injury; or
- (c) any loan which would be obtained only if secured against capital disregarded under Schedule 5,

any capital which would become available to the claimant upon application being made, but which has not been acquired by him, shall be treated as possessed by him but only from the date on which it could be expected to be acquired were an application made.

(3) Any payment of capital made—

- (a) to a third party in respect of a member of the family (but not a member of the third party's family) shall be treated as possessed by that member to the extent that it is used for his food, clothing, footwear, fuel, eligible rent or rates or both;
- (b) to a member of the family in respect of a third party (but not in respect of another member of the family) shall be treated as possessed by that member to the extent that it is kept by him or used on behalf of any member of the family.

(4) Where a claimant stands in relation to a company in a position analogous to that of a sole owner or partner in the business of that company, he may be treated as if he were such sole owner or partner and in such a case—

- (a) the value of his holding in that company shall, notwithstanding regulation 38 (calculation of capital) be disregarded; and
- (b) he shall, subject to paragraph (5), be treated as possessing an amount of capital equal to the value or, as the case may be, his share of the value of the capital of that company and the foregoing provisions of this Chapter shall apply for the purposes of calculating that amount as if it were actual capital which he does possess.

(5) For so long as the claimant undertakes activities in the course of the business of the company, the amount which he is treated as possessing under paragraph (4) shall be disregarded.

(6) Where a claimant is treated as possessing capital under any of paragraphs (1) to (3) the foregoing provisions of this Chapter shall apply for the purposes of calculating its amount as if it were actual capital which he does possess.

Capital jointly held

44. Except where a claimant possesses capital which is disregarded under regulation 43(4) (notional capital) where a claimant and one or more persons are beneficially entitled in possession to any capital asset they shall be treated as if each of them were entitled in possession to the whole beneficial interest therein in an equal share.

Calculation of tariff income from capital

45.—(1) Where the claimant's capital calculated in accordance with this Part exceeds £3,000 it shall be treated as equivalent to a weekly tariff income of £1 for each complete £250 in excess of £3,000 but not exceeding £6,000.

(2) Notwithstanding paragraph (1) where any part of the excess is not a complete £250 that part shall be treated as equivalent to a weekly tariff income of £1.

(3) For the purposes of paragraph (1), capital includes any income treated as capital under regulations 27(2) and 40 (charitable or voluntary payments and income treated as capital).

- (b) to whom that regulation does not apply, so much of the weekly amount of the payment as exceeds the amount included under Schedule 2 in the calculation of the claimant's applicable amount for that child or young person by way of the personal allowance and disabled child premium, if any.

24. Any payment made by a local authority to the claimant with whom a person is boarded out by virtue of arrangements made under section 21(1)(a) of the Child Care Act 1980(a) or, as the case may be, section 12 of the Social Work (Scotland) Act 1968(b) or by a voluntary organisation under section 61 of the 1980 Act or by a care authority under regulation 9 of the Boarding Out and Fostering of Children (Scotland) Regulations 1985(c) (provision of accommodation and maintenance for children in care).

25. Any payment made by a health authority, local authority or voluntary organisation to the claimant in respect of a person who is not normally a member of the claimant's household but is temporarily in his care.

26. Any payment made under section 1 of the Child Care Act 1980 or, as the case may be, section 12 of the Social Work (Scotland) Act 1968 (duty of local authorities to promote welfare of children).

27. An amount equal to any maintenance payment made by the claimant to his former partner or in respect of his children other than children who are members of his household.

28. Any payment received under an insurance policy taken out to insure against the risk of being unable to maintain repayments on a loan for the purchase of the dwelling which the claimant occupies as his home and secured on that dwelling to the extent that it does not exceed the amount calculated, on a weekly basis, of that repayment.

29. Any payment of income which by virtue of regulation 40 (income treated as capital) is to be treated as capital.

30. Any social fund payment.

31. Any payment under paragraph 2 of Schedule 6 to the Act (pensioners' Christmas bonus).

32. Where a payment of income is made in a currency other than sterling, any banking charge or commission payable in converting that payment into sterling.

33. The total of a claimant's income or, if he is a member of a family, the family's income and the income of any person which he is treated as possessing under regulation 19(3) (calculation of income and capital of members of claimant's family and of a polygamous marriage) to be disregarded under regulation 54(2)(b) and regulation 55(1)(e) (calculation of covenant income where a contribution assessed, covenant income where no grant income or no contribution is assessed) and paragraphs 13 and 14 shall in no case exceed £5 per week.

SCHEDULE 5

Regulation 38(2)

CAPITAL TO BE DISREGARDED

1. The dwelling together with any garage, garden and outbuildings, normally occupied by the claimant as his home including any premises not so occupied which it is impracticable or unreasonable to sell separately, in particular, in Scotland, any croft land on which the dwelling is situated; but, notwithstanding regulation 19 (calculation of income and capital of members of claimant's family and of a polygamous marriage), only one dwelling shall be disregarded under this paragraph.

2. Any premises acquired for occupation by the claimant which he intends to occupy within 26 weeks of the date of acquisition or such longer period as is reasonable in the circumstances to enable the claimant to obtain possession and commence occupation of the premises.

(a) 1980 c.5, amended by section 9 and Schedule 2 paragraph 49 of the Health and Social Services and Social Security Adjudications Act 1983 (c.41).

(b) 1968 c.49.

(c) S.I. 1985/1799.

3. Any sum directly attributable to the proceeds of sale of any premises formerly occupied by the claimant as his home which is to be used for the purchase of other premises intended for such occupation within 26 weeks of the date of sale or such longer period as is reasonable in the circumstances to enable the claimant to complete the purchase.

4. Any premises owned by the claimant occupied in whole or in part by a partner or relative of any member of the family where that person is either aged 60 or over or incapacitated.

5. Where a claimant is on income support, the whole of his capital.

6. Any reversionary interest.

7. The assets of any business owned in whole or in part by the claimant and for the purposes of which he is engaged as a self-employed earner, or if he has ceased to be so engaged, for such period as may be reasonable in the circumstances to allow for disposal of any such asset.

8. Any arrears of, or any concessionary payment made to compensate for arrears due to the non-payment of,—

(a) any payment specified in paragraphs 5, 7 or 8 of Schedule 4;

(b) an income-related benefit or supplementary benefit, family income supplement under the Family Income Supplement Act 1970(a) or housing benefit under Part II of the Social Security and Housing Benefits Act 1982,

but only for a period of 52 weeks from the date of the receipt of arrears or of the concessionary payment.

9. Any sum—

(a) paid to the claimant in consequence of damage to, or loss of the home or any personal possession and intended for its repair or replacement; or

(b) acquired by the claimant (whether as a loan or otherwise) on the express condition that it is to be used for effecting essential repairs or improvement to the home,

which is to be used for the intended purpose, for a period of 26 weeks from the date on which it was so paid or acquired or such longer period as is reasonable in the circumstances to effect the repairs, replacement or improvement.

10. Any sum—

(a) deposited with a housing association as defined in section 189(1) of the Housing Associations Act 1985(b) or section 338(1) of the Housing (Scotland) Act 1987(c) as a condition of occupying the home;

(b) which was so deposited and which is to be used for the purchase of another home, for the period of 26 weeks or such longer period as may be reasonable in the circumstances to enable the claimant to complete the purchase.

11. Any personal possessions except those which have been acquired by the claimant with the intention of reducing his capital in order to secure entitlement to housing benefit or to increase the amount of that benefit.

12. The value of the right to receive any income under an annuity or the surrender value (if any) of such an annuity.

13. Where the funds of a trust are derived from a payment made in consequence of any personal injury to the claimant the value of the trust fund and the value of the right to receive any payment under that trust, for a period of 2 years or such longer period as is reasonable in the circumstances beginning—

(a) if, at the date of the payment the claimant or his partner is in receipt of an income-related benefit, on that date;

(b) in any other case, on the date on which an income-related benefit is first payable to the claimant or his partner after the date of the payment,

but, for the purposes of regulations 16, 17 and 36(2) (applicable amounts, polygamous marriage and modifications in respect of children and young persons), in calculating the capital of a child or young person there shall be no limit as to the period of disregard under this paragraph.

(a) 1970 c.55.

(b) 1985 c.69.

(c) 1987 c.26.

14. The value of the right to receive any income under a life interest or from a life tenant.
15. The value of the right to receive any income which is disregarded under paragraph 8 of Schedule 3 or paragraph 22 of Schedule 4.
16. The surrender value of any policy of life insurance.
17. Where any payment of capital falls to be made by instalments, the value of the right to receive any outstanding instalments.
18. Any payment made under section 1 of the Child Care Act 1980 or, as the case may be, section 12 of the Social Work (Scotland) Act 1968 (duty of local authorities to promote welfare of children).
19. Any social fund payment.
20. Any refund of tax which falls to be deducted under section 26 of the Finance Act 1982(a) (deduction of tax from certain loan interest) on a payment of relevant loan interest for the purpose of acquiring an interest in the home or carrying out repairs or improvements to the home.
21. Any capital which by virtue of regulation 34 (capital treated as income) is to be treated as income.
22. Where any payment of capital is made in a currency other than sterling, any banking charge or commission payable in converting that payment into sterling.

SCHEDULE 6

Regulations 77 and 79

MATTERS TO BE INCLUDED IN THE NOTICE OF DETERMINATION

PART I

GENERAL

1. The statement of matters to be included in any notice of determination issued by an appropriate authority to a person, and referred to in regulation 77 (notification of determinations) and 79 (review of determinations) are those matters set out in the following provisions of this Schedule.
2. Every notice of determination shall include a statement as to the right of any person affected by that determination to request a written statement under regulation 80 (requests for statement of reasons) and the manner and time in which to do so.
3. Every notice of determination shall include a statement as to the right of any person affected by that determination to make written representations in accordance with regulation 79(2) and the manner and time in which to do so.
4. Every notice of determination following written representations in accordance with regulation 79(2) (review of determinations) shall include a statement as to whether the original determination in respect of which the person made his representations has been confirmed or revised and where the appropriate authority has not revised the determination the reasons why not.
5. Every notice of determination following written representations in accordance with regulation 79(2) (review of determinations) shall include a statement as to the right of any person affected by that determination to request a further review in accordance with regulation 81 (further review of determinations) and of the manner and time in which to do so.
6. An authority may include in the notice of determination any other matters not prescribed by this Schedule which it sees fit, whether expressly or by reference to some other document available without charge to the person.

(a) 1982 c.39.

UNCLASSIFIED



BF #4 12/4

FROM: MISS M P WALLACE

DATE: 28 March 1988

15/4

PS/CHIEF SECRETARY

cc PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Cropper
Mr Tyrie
Mr Call o/r

BF 18/4

DEFINITION OF CAPITAL FOR HOUSING BENEFIT ENTITLEMENT

The Chancellor has seen Mr Call's minute of 25 March. He would be grateful for the Chief Secretary's views on this question.

Mpw.


MOIRA WALLACE

CONFIDENTIAL

FROM: D R INSTONE

DATE: 30 March 1988

CHIEF SECRETARY

cc Chancellor 
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton
 Mr Anson
 Mr Byatt
 Mr Phillips
 Mrs Case
 Mr Hawtin
 Miss Peirson
 Mr Turnbull
 Mr McIntyre
 Mr Betenson
 Mrs Holmans
 Mr Tyrie
 Mr Call

FORTHCOMING ISSUES ON HOUSING AND HOUSING BENEFIT

You may find it helpful, over Easter, to have an aide-memoire of the main issues coming up on the increasingly intertwined areas of future housing policy, use of housing capital receipts and housing benefit. We have therefore prepared the attached note.

2. As you will see, many of these unresolved issues reflect the inconclusive E(LF) discussion last week, where it was left that Mr Ridley would take account of the points made, and in particular would do considerably more work on the financial implications, before coming back to E(LF) again after Easter; we will be ensuring that we are first consulted in detail at official level.

3. The thrust of Mr Ridley's proposals is to encourage the maximum possible shift from the public to the private rented sector. This would minimise both housing provision in the public sector and the need for future public investment. But to do this he envisages relying increasingly on encouraging rent rises closer to commercial levels and so on subsidising individuals on a means tested basis through housing benefit rather than indiscriminately through continuing large scale local authority housing at low rents.

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4. Increased use of means tested subsidies does, of course, bring increased dependency on benefits; so the underlying issue for political judgement will be whether any overall savings in public expenditure are sufficient to justify that further reliance on benefit. Mr Ridley's further work on financial and benefit implications will inform that judgement; but you may wish to give some preliminary thought to the principles at stake.

5. I think the other most important issues where we might want to consider our line are:-

(a) The level of financial incentives to local authorities to dispose of their housing stock, and in particular future treatment of capital receipts from council house sales. The view taken at E(LF) was that politically we have to accept that all authorities should be entitled to keep some part, probably 20% of the receipts, for further capital expenditure. But we need to clarify what the proportion should be:

(i) for accumulated housing receipts as at 1 April 1990;

(ii) for new receipts from sales after 1 April 1990;

(iii) for receipts from wholesale disposals.

We must also consider how to give effect to the E(LF) view that retained receipts might be transferred to other tiers so that they can be spent on other priority areas for LA capital.

(b) Our attitude on departmental responsibility for housing benefit, given that it is likely - though not yet certain - that Mr Ridley and Mr Moore will both be arguing in favour of a transfer from DHSS to DOE and the Scottish and Welsh Offices.

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6. There is nothing in this note that requires immediate decisions. But since we may have to react fairly quickly, you may wish to consider whether there is any further steer we should be given in official discussions at this stage.

D R I

D R INSTONE

CONFIDENTIAL

FORTHCOMING HOUSING AND HOUSING BENEFIT ISSUESHousing: Capital Issues

On the capital side, the main issues for forthcoming decision stem squarely from last week's E(LF) discussion. The key issues are:-

(a) Feasibility of wholesale disposals. The flavour from E(LF) was that "genuine" wholesale disposals might be difficult to achieve, and that they could well become a device to evade Government controls. This seems to imply that the gap in Mr Ridley's E(LF) proposals between the fairly tough financial regime applied to housing receipts while the authority retained the housing function, and the overgenerous treatment of receipts on wholesale disposals, needs to be narrowed.

(b) Treatment of capital receipts. This splits into a series of issues, especially:-

(i) Should accumulated receipts on 1 April 1990, and the flow of new receipts thereafter, be treated differently?

(ii) If we accept that authorities should be allowed to keep at least some of their new housing receipts after repayment of debt, what should the proportion be? The practical effects seem to depend on two further questions, namely:

(iii) How far housing capital receipts might be channelled into meeting needs of other services, such as education, even where they were provided by a different tier of local authority? This would in itself add to public

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spending on non-housing LA capital and should in our view be offset against the service borrowing approvals for these services under the new LA capital control system.

(iv) How far should there be different systems of incentives for different kinds of local authority? In particular, should there be a separate regime for inner city areas, especially London? Although E(LF) suggested this, it is not yet clear what alternative regime might be introduced. But it is probably in our interest to encourage this, as is consistent with our earlier line of encouraging closer targeting of incentives on different kinds of authorities, to avoid deadweight.

(c) Criteria for wholesale disposals by local authorities. E(LF)'s conclusions largely followed the line in your briefing, by suggesting that further work needed to be done on this, especially the financial implications and the extent to which landlords would be likely to be prepared to take on a "social" role without depressing financial prospects.

2. On all these issues the initiative rests with DOE to come up with specific proposals, which we shall need to look at carefully before they go to E(LF). But it would be helpful if you could let us know whether there are any points you would like us to reflect in these official discussions.

Housing: Revenue Issues

Ring Fencing and Rents Policy

3. E(LF) did not raise specific objections to Mr Ridley's "ring-fencing" proposals (the central features of which are to forbid subsidies from authorities' general rate fund and to insist on

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a required minimum payment from housing accounts in surplus back into the general rate fund). But they said that further work was needed before decisions could be taken. In particular they wanted clear assumptions about what rents policy should be pursued; they thought this would need differential rent increases in different authorities, recognising that some authorities were starting from a higher base than others.

4. Mr Ridley is likely to find this quite difficult, especially as about 2 years ago the Prime Minister suggested that decisions on rent increases should not be taken too far in advance.

5. This is likely to throw into sharp relief for us the question of whether we should welcome quite large rent increases, on the grounds that this will help supply and encourage transfer from local authorities to the private sector, and save money overall for the Exchequer, or whether rather we should press for lower rent increases to avoid both large increases in the housing benefit bill and increasing the number of people depending on it. Broadly there are two main stances we could take:-

(i) to accept any level of rent increases provided the extra housing benefit costs are outweighed by other public expenditure savings on housing; or

(ii) to accept only some lower figure, in order to minimise the increase in the "dependency culture".

6. In principle we could delay deciding on this until we see more detailed figures. However those annexed to Mr Ridley's earlier E(LF) paper give a guide (copy attached), and further refinement of the figures may not alter the central issues. The main financial assertion is that higher surpluses on HRAs (and lower deficits) would enable lower expenditure and that this would more than offset the extra spending on HB. The rough orders of magnitude (on NPV basis over 30 years) are an increase in the housing benefit bill of £8½ billion with a 1% real rent increase, and a £15½ billion benefit increase with a 3% real rent increase; but against this there are total spending reductions of £20 billion and £27 billion respectively*.

* subject to some heroic assumptions on classification.

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7. On how to differentiate between different authorities (see paragraph 3 above) we will need to await DOE's initial proposals and then consider with them: there is a wide range of alternatives - at least in theory - for dealing with this.

Central Government versus Community Chargepayer Support

8. E(LF) did not address the issue raised in your letter, that there was a case for the Community Chargepayer, rather than the taxpayer, meeting some of the deficits on local authority housing accounts. We shall need to ensure that this is addressed in the follow-up before the next E(LF) meeting.

Survey Issues (Housing)

9. Difficult to be clear at this stage, as will largely depend on results of E(LF) discussions on housing finance. For first year of Survey, when existing arrangements still in place, issues will probably be similar to last year's, ie especially levels of receipts, with extra money probably sought by Mr Ridley for Housing Action Trusts and Housing Corporation. Question of how much resources should be made available for local authority capital expenditure will be tricky, if Mr Ridley is arguing at same time that there is significant scope for wholesale disposals.

Housing Benefit Issues

10. Effect of ring-fencing and large-scale disposals, (which may both lead to large increases in rents) on both HB expenditure and number of recipients. Further assessment being done as part of preparations for next E(LF) meeting on Mr Ridley's proposals. DHSS will argue that these proposals strengthen the case for transferring HB to DOE because each will have an important impact on rents, and thus on HB. Moreover:

(i) ring-fencing will increase DOE control over rents; and

(ii) the pace and scale of disposals will be partly determined by the financial regime for housing operated by DOE.

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11. Employment trap of housing benefit policies. Work arising from Mr Ridley's minute of 19 February to the Prime Minister. Will be more narrowly focussed than Mr Ridley proposed, following Chief Secretary's minute of 29 February and Private Secretary letter of 8 March, and No.10's of 17 March. Mr Ridley's general concern is the combined impact of tax, NICs, Community Charge and HB policies on those just above benefit levels. His particular proposal is reversal of the decision to increase the income taper for rent assistance from 65% to 70% in April 1989 (cost: £50 million). He wanted collective discussion of the options in 1988 PES.

12. Work will be taken forward by officials under DHSS chairmanship. The Prime Minister "hopes that the work could focus mainly on options which do not involve increased expenditure or numbers of HB recipients". She also feels that the conclusions should be fed into the PES "in the normal way, with the appropriate Secretaries of State taking responsibility for their expenditure programmes". (No.10 letter of 17 March.)

Survey Issues (housing benefit)

13. (a) 70 per cent taper (see above);

(b) likely DHSS proposal to increase £6,000 capital limit for HB entitlement;

(c) possible Treasury initiative to reopen decision to compensate those on HB for 100 per cent of rent increases;

(d) possible Treasury proposal to reduce (slightly) the 97 per cent subsidy paid to LAs for HB expenditure.

14. In addition, decisions will be needed on the assumptions for real rent increases in 1989-90. Existing PES provision covers only a 1 per cent rise in LA rents and 3 per cent in private sector rents. A 5 per cent assumption for LAs (in line with 1988-89) would add over £100 million to HB in 1989-90.

Family Right to Buy

15. Proposal made by Mr Walker last Autumn. Under consideration by official group, chaired by Welsh Office. Would enable relatives to buy elderly tenants' council properties at usual discount and allow tenants to continue drawing HB to meet rents. Treasury line (endorsed by CST) is against use of HB to assist purchase of capital asset.

Transfer of Responsibility to DOE/SO/WO

16. Proposal floated by Mr Ridley last Autumn, though he has not yet come down clearly in favour. SO/WO views also unknown. DHSS Ministers in favour. Subject revived by Mr Moore's letter of 23 March which proposed to Mr Ridley that they meet as soon as possible to consider a report on transfer by DHSS officials, based on work done in officials' group.

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. Annex E

FINANCIAL EFFECT OF RING-FENCING

	1	2	3	£bn 4
	PRESENT SYSTEM CONTINUED (assumes 1% real increase)	---WITH REAL RENTS +1%pa*	RING-FENCING--- REAL RENTS +2%pa*	REAL RENTS +3%pa*
1. GROSS CAPITAL EXPENDITURE	49.882	49.882	49.882	49.882
2. RTB RECEIPTS	18.423	18.423	18.423	18.423
3. NET CAPITAL EXPENDITURE	31.459	31.459	31.459	31.459
4. MHS & RFCs	13.589	1.497	1.497	1.497
5. NEW HOUSING SUBSIDY	0.000	2.471	1.888	1.571
6. RMPs**	0.000	10.817	18.555	23.541
7. HOUSING BENEFIT	8.542	8.542	12.869	15.630
PUBLIC EXP TOTAL (lines 3+4+5-6+7)	53.616	33.152	29.158	26.616
cf. DO NOTHING		-20.438	-24.432	-26.974
EXCHEQUER EFFECTS				
8. MHS & RSG	10.781	1.192	1.192	1.192
9. NEW HOUSING SUBSIDY	0.000	2.471	1.888	1.571
10. RMPs**	0.000	10.817	18.555	23.541
11. HOUSING BENEFIT	8.542	8.542	12.869	15.630
EXCHEQUER EXP TOTAL (lines 8+9-10+11)	19.323	1.388	-2.606	-5.148
cf. DO NOTHING		-17.935	-21.929	-24.471

*: Real rent increase each year until affordable levels reached, then in line with inflation.

** : Under present conventions, RMPs would not score as negative public expenditure but would lead to an equivalent reduction in central government grant and this is assumed to be reflected in local authority expenditure.

papers p2e

FROM: ZOE EVEREST-PHILLIPS

DATE: 8 April 1988

MR INSTONE

CC:
PS/Chancellor
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir Peter Middleton
Mr Anson
Mr Byatt
Mr Phillips
Mrs Case
Mr Hawtin
Miss Peirson
Mr Turnbull
Mr McIntyre
Mr Betenson
Mrs Holmans
Mr Tyrie
Mr Call

FORTHCOMING ISSUES ON HOUSING AND HOUSING BENEFIT

The Chief Secretary was very grateful for your note of 30 March. He had several comments on it, as follows.

1. We must not be bounced again by the DOE. Can we make absolutely certain that we are consulted at official level before more papers are submitted.
2. Mr Ridley is generally inclined to a Treasury view. The Chief Secretary would prefer to avoid more open disagreement with him at E(LF). If necessary therefore we will need to bear in mind the possibility of a bilateral with Mr Ridley before E(LF) if we are in fundamental disagreement.
3. The essential point underpinning future housing policy is the extent to which we permit rents to rise for supply side reasons in view of the entailed housing benefit costs. As paragraph 12 of your

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background note states, the Prime Minister does not wish generally to see increased expenditure on housing benefit or an increased number of recipients. The Chief Secretary generally agrees and therefore:

- (a) we should continue to resist the transfer of housing benefit from DHSS to DOE (although he understands that DHSS/DOE are caballing about this).
 - (b) we should consider afresh how to "cap" housing benefit entitlement (perhaps as quid pro quo for raising the £6000 cut-off if this proves unsustainable politically - as it might).
 - (c) we should seek to reduce the 97 per cent subsidy reimbursement to local authorities in the next PES (does this yield a public expenditure saving or simply change distribution? Perhaps you could advise).
 - (d) we should reopen the 100 per cent reimbursement of rent increases for those with incomes that do not rise.
 - (e) The Chief Secretary is not prepared to backtrack on the 70 per cent taper agreement in PES '87.
4. The Chief Secretary would accept a modest increase in housing benefit costs if (a) we were certain of the parallel public expenditure savings that DOE promise and (b) we made progress on 3 (a) - (e) above. Any rent increase necessarily involves housing benefit increase and we must accept this. The savings at 4 (a) seem speculative - can we

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be sure of them? Can DOE justify then on acceptable assumptions?

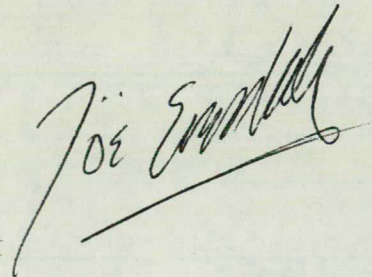
5. When financial incentives are difficult because political reality and Treasury interests diverge:

(a) The Chief Secretary does not think it is sustainable to backtrack on the 20 per cent position under which local authorities can spend in-year that portion of accumulated receipts.

(b) Wholesale disposals are attractive in principle but full of problems: (i) because sale prices will be depressed by so-called "landlords charter;" (ii) because rents (and housing benefit costs) will rise as landlords seek a return on capital. Other problems abound. The Chief Secretary would like to discuss these when DOE have revealed their proposals.

(c) What are the options on post-1999 capital receipts? Again, the Chief Secretary would like to discuss.

6. The Chief Secretary would be content to hold a meeting, if it would be helpful, to pick up on these and any other issues not covered by this note.



ZOE EVEREST-PHILLIPS

APS

CONFIDENTIAL

FROM: M C BETENSON

DATE: 13 April 1988

1. MR HAWTIN *Att 13/4*
 2. CHIEF SECRETARY

cc Chancellor 14/2
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir Peter Middleton
 Mr Anson
 Mr Byatt
 Mr Phillips
 Mrs Case
 Miss Peirson
 Mr Turnbull
 Mr Instone O/R
 Mr McIntyre
 Mr Potter
 Mrs Holmans
 Mr Tyrie
 Mr Call

LOCAL AUTHORITY CAPITAL CONTROLS ON HOUSING

DOE will be circulating to E(LF) for discussion on Monday 18 April a paper along the lines of the attached draft, covering how the control of capital spending on housing can be fitted into the new mechanism agreed for general local authority capital control. There is no need for you to take any action. This note is for background only.

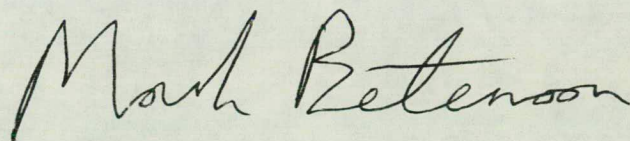
2. DOE had been planning to rush through a series of papers relating to wholesale disposals of local authority stock and their intention was to include discussion of incentives for disposals in the capital control paper. However, we have persuaded DOE to delay all substantive discussion of the future of local authority housing (including rents policy and incentives) until a further E(LF) planned for 3 May. By that stage we have asked DOE to have discussed with us an overview paper which sets out the general public expenditure and specific housing benefit implications of the rent and incentive options.

3. DOE's revised plans for E(LF) clearance are an improvement. We have not pressed for delay to the attached paper because it

does not propose commitment to any specific scale of capital incentives for disposals. The basic mechanism would be compatible with a range from massive incentives to none. And the paper should allow us to unblock publication of the consultation document on the general reform of local authority capital controls —given the need for legislation in the autumn, early consultation is now a pressing requirement.

4. In brief, the draft paper recommends a common legislative basis for housing and general capital controls with different limits on use of spending power from receipts (including if necessary differences between right to buy and wholesale receipts) to be agreed in the light of further work by officials on exemplifying the costs and benefits of setting limits at particular levels. This is all helpful and should set the later discussions on disposals and ring-fencing in a coherent context.

5. The only part of the draft paper which causes any difficulties is Annex B which floats the option of voluntary transfers of spending power from receipts between tiers of authorities. This picks up a point raised by Mr Baker at E(LF) on 23 March. We do not think the option is likely to prove workable but since the draft paper only recommends further official work there is no need to press the point at this stage.



M C BETENSON

CONFIDENTIAL

FROM: M C BETENSON
 DATE: 14 April 1988

1. MR HAWKIN
 2. CHIEF SECRETARY

cc PS/Chancellor
 Mr Anson
 Mr Phillips
 Mrs Case
 Miss Peirson
 Mr Turnbull
 Mr Instone O/R
 Mr McIntyre
 Mr Potter
 Mrs Holmans
 Mr Tyrie
 Mr Call

E(LF) 18 April: LOCAL AUTHORITY CAPITAL CONTROLS ON HOUSING

My submission of 13 April (copy attached) set the background to a paper (E(LF)(88)9) on local authority housing capital control. This note provides briefing on the paper for E(LF) on 18 April.

Line to take

2. Support proposals strongly. Important to issue consultation document on general capital controls and begin preparation of legislation given need to introduce next session. Housing proposals fit in well with general controls. They represent a framework only, and do not commit Government to incentives for wholesale disposals or to any particular pattern of future public expenditure.

3. Other Ministers may express concern that treatment of receipts proposed in consultation paper will be unpopular. But consultation paper says nothing about redistributing of receipts from one area to another. It does propose that local authorities should be free to spend the receipts after a proportion has been set aside to repay debt incurred in acquiring asset. This line is defensible and will create more scope for matching needs to resources. Allowing greater use of receipts would lead to higher public spending.

4. Mr Walker's recent minute to the Prime Minister (copy attached) proposes an alternative to Mr Ridley's earlier proposals on ringfencing. Mr Walker seeks agreement to further evaluation. You

should avoid substantive discussion but can accept further evaluation so that Mr Walker's ideas can be discussed together with further papers from Mr Ridley at E(LF) on 3 May (we do not recommend you respond in writing to Mr Walker's minute until Mr Ridley has done so).

Points to make

5. A speaking note is attached.

Summary of paper

6. Proposes control framework for housing virtually identical with general capital controls. But leaves open for later decision possibility of setting different control limits for use of housing receipts. Annex A explains why different limits may be needed but makes no specific proposals. Annex B discusses possibility of transferring spending power from housing receipts between authorities but again makes no proposals.

7. Agreement is sought to:

i. publication of consultation paper on general capital controls (subject to final drafting);

ii. general approach proposed for housing control and to further work and exemplifications on control limit differences and Annex B options on transferring spending power (in consultation with Treasury);

iii. preparation of legislation for next session.

Mark Betenson

M C BETENSON

SPEAKING NOTE

1. Welcome paper. Important to establish framework for capital controls within which to discuss wider housing issues. This does so without pre-empting any of the decisions needed on housing. Sensible that new local authority capital control system should apply to housing (except where differences can be justified).
2. Important to issue consultation paper on general local authority capital controls soon so legislation can be prepared for 1988-89 and new system operated from April 1990. [If delaying the consultation paper proposed: point out that new system could not be in place by April 1990 when community charge is introduced. Existing capital control system incompatible with community charge, because attempts to control all capital spending (however financial^{ly}), and does not stop local authorities deferring liabilities into future].
3. Scheme for redistribution of surplus receipts (Annex B to paper) would increase spending power from receipts. This would increase public spending. Future work ought to concentrate on redistribution without increasing spending power. Redistribution from shire districts to urban areas will be unpopular with supporters. But may be possible to develop scheme passing receipts between different tiers of local government within same areas (ie from shire districts to shire counties).
4. [If wider housing issues start to be discussed (eg if Mr Walker raises his minute to Prime Minister)]; cannot discuss substantively now but need to be quite clear how to take wider issues forward. Five main elements to be discussed:
 - i. local authority rents policy;
 - ii. criteria for agreeing to wholesale disposals;
 - iii. limits on use of receipts from wholesale disposals.
 - iv. revenue side of ring-fenced housing accounts and arrangements for subsidy after disposals;

v. landlords code.

These elements need to be seen in context. All have major implications for public expenditure (and housing benefit specifically). Must ask for discussion of an overview paper which will:

- i. set out options for each policy strand and fit them into coherent alternative combinations;
- ii. cost each alternative and set out balance of advantages, ie weigh up overall expenditure savings against increased housing benefit dependency and costs.

Mr. Betenson

FROM: M C BETENSON
DATE: 13 April 1988

- Att 13/4*
1. **MR HAWTIN**
 2. **CHIEF SECRETARY**

- cc
- Chancellor
 - Financial Secretary
 - Paymaster General
 - Economic Secretary
 - Sir Peter Middleton
 - Mr Anson
 - Mr Byatt
 - Mr Phillips
 - Mrs Case
 - Miss Peirson
 - Mr Turnbull
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 - Mrs Holmans
 - Mr Tyrie
 - Mr Call

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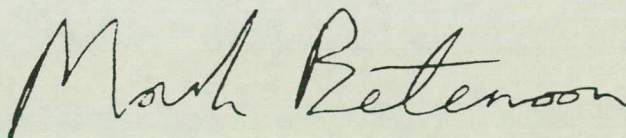
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4. In brief, the draft paper recommends a common legislative basis for housing and general capital controls with different limits on use of spending power from receipts (including if necessary differences between right to buy and wholesale receipts) to be agreed in the light of further work by officials on exemplifying the costs and benefits of setting limits at particular levels. This is all helpful and should set the later discussions on disposals and ring-fencing in a coherent context.

5. The only part of the draft paper which causes any difficulties is Annex B which floats the option of voluntary transfers of spending power from receipts between tiers of authorities. This picks up a point raised by Mr Baker at E(LF) on 23 March. We do not think the option is likely to prove workable but since the draft paper only recommends further official work there is no need to press the point at this stage.



M C BETENSON



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PRIME MINISTER

CHIEF SECRETARY	
REC.	- 7 APR 1968
ACTION	Mr Inatene
REFERS TO	Co. Mr Assen
	Mr Phillips, Mr Hewton
	Mr Turnbull, Mr Potter
	Mr Bateman, Mr McIntyre
	Mr Call,

NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

In our discussion at E(LF) last week we all endorsed Nicholas Ridley's analysis of the problems which arose from the present financial regime for local authority housing. But we were concerned that the proposals to require authorities to make surpluses on their council housing and for these to be recovered by the Exchequer would be controversial. In order to justify the operation of a system which would give us such explicit control over rent levels in individual authorities we concluded that we would need also a very explicit rent policy which differentiated not only between different geographical areas but also between the physical condition and desirability of different dwellings.

I am very worried that such a highly interventionist system would take us diametrically away from putting the onus on local authorities to manage their affairs properly within a disciplined framework. Not only will the negative subsidy proposal be intensely unpopular with the shire districts controlled by our own supporters; but we shall court great unpopularity with tenants, since local authorities will be able to blame rent increases on our rent policy determinations. And because the determinations would be so highly differentiated between areas and different qualities of housing, we should be perpetually bombarded with representations about hard luck cases.

On reflection, I believe there could be a much less controversial, and more straightforward, way of remedying the ills of the present system. I take as my point of departure the ring fencing of the Housing Revenue Account to prevent local authorities from making rate fund contributions to subsidise rents. We are all agreed on this. I propose that in each year a cash limited sum should be available for housing subsidy (separate cash limits for England and for Wales); and that this sum should be distributed to those authorities whose outstanding loan debt per dwelling exceeds the (English or Welsh) national average, pro rata to the total size of their excess HRA local debt.

Such a system would have a broadly similar distributional effect to that proposed by Nicholas Ridley. In his system, it would also be those authorities which had the lowest loan debt per dwelling which would be in surplus, and those with the highest loan debt per dwelling which attracted a positive subsidy entitlement.



The amount to be made available for housing subsidy each year would be settled in the annual PES round. I am not myself convinced that it would be desirable for council rents to rise substantially in real terms: the housing benefit bill would shoot up and the politically important group of tenants in low paid employment would suffer a severe reduction in their disposable income. However if we did want to influence rents upwards, we would cut the amount available globally for housing subsidy (and would have to make appropriately increased provision for housing benefit). But we would not be seen to have made explicit judgements about appropriate rent levels; local authorities would be responsible for their own decisions. And we would not have to introduce the highly controversial concept of a negative subsidy.

If you agree that this option warrants further consideration, I suggest that my officials together with DOE, Treasury and other interested departments should be instructed to undertake detailed work urgently, with the aim of bringing an agreed evaluation before the next meeting of E(LF).

/ I am copying this minute to other members of E(LF) and to Sir Robin Butler.

FW

April 1988



mpw

Ch/

I understand from
CST's office that he
regards this issue as
overtaken. Do you wish
to pursue further?

No.

mpw

4/5

CONFIDENTIAL

papers pt (on BF)

BE 20/4

pre-chase CRT's

CHANCELLOR

FROM: P J CROPPER
DATE: 14 April 1988

BF

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Tyrie
Mr Call

22/4

*on response
to my min
of 28/3
(behind)*

*[I will answer I have
response to me
will submit]*

DEFINITION OF CAPITAL FOR HOUSING BENEFIT ENTITLEMENT

The more I hear about the £6,000 cut off limit, the less I like the statutory instrument defining "capital", attached to Mark Call's minute of 25 March.

2. It seems to me that, once again, the person who saves on his own account, who tries to build up a nest-egg of investments for retirement, is put at a disadvantage compared with the person who enjoys entitlement under an occupational pension fund.

3. I also find very questionable the fact that the computation of capital excludes "The assets of any business owned in whole or in part by the claimant and for the purposes of which he is engaged as a self-employed earner." Why should it? Why, furthermore, should the private residence be excluded, without limit as to value?

4. All the dice are loaded in favour of people who invest in bricks and mortar and against people who invest in income bearing shares and bonds. When will this bias at least be levelled out?

P J CROPPER

*TL
20/4*
*ZEP
WILL BE
REPLYING.
NOTICE LATER.*

FROM: J P MCINTYRE
DATE: 28 April 1988

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Beastall
Miss Peirson o.r.
Mr Turnbull
Mr Ramsden

HOUSING BENEFIT: TRANSITIONAL SCHEME

As you know, Mr Moore proposed in his minute to the Prime Minister of 26 April that the scheme should be operated on an extra-statutory basis, though at our behest, his minute also said:

"It would be unusual to run a scheme on this scale for several years with no statutory backing, and the Treasury advise that the normal convention would require primary legislation in due course".

The question was not resolved in Ministerial discussions of Mr Moore's proposals, and you asked for advice.

2. Your locus in this is, of course, the Treasury's responsibility for the concordat with the PAC on this issue. Under this agreement, the Treasury has accepted that

"...practice should normally accord with the view expressed by the Committee that, where it is desired that continuing functions should be exercised by a government department (particularly where such functions involve financial liabilities extending beyond a given year) it is proper that the powers and duties to be exercised should be defined by specific statute. The Treasury will...continue to aim at the observance of this principle."

3. The reason Mr Moore gave for wishing to avoid primary legislation was that it would give rise to a resurgence of discussion of the structural changes. DHSS officials have also argued very strongly to me that there would be significant practical disadvantages in legislating.

a. We would effectively be establishing a new benefit. As it is to be run by DHSS centrally, it would have to be established separately from the main Housing Benefit scheme operated by Local Authorities.

b. The Opposition and the poverty groups would expect the scheme to be established with the same rights for claimants as other benefits, notably adjudication, rights of appeal to the Social Security Commissioner, and ultimately judicial review. The criteria for entitlement would need to be more tightly defined, and the scheme would have to be applied less flexibly.

c. There might well be pressure on Ministers, as the Bill was being taken through, to extend the scope of the scheme to groups currently excluded (eg widows) and to prolong its life.

d. The overall effect would be to risk making the scheme a more permanent feature of the social security landscape than we might otherwise wish. (And assuming the measure would be included in DHSS' Autumn Bill, it would not be law until Summer 1989, over a year after the scheme's inception. This might reinforce the impression that the "transitional" scheme was intended to cover rather a long transition.)

4. It is not clear that all the practical arguments are necessarily on DHSS' side. An entirely discretionary scheme, which has not been approved by Parliament, may be one which Ministers will be tempted to make increasingly elastic to cope with borderline cases and unforeseen claims. If the rules were spelled out in regulations, pressure for easements in the scheme

that
pressure
now coming
from DHSS -
predictably

might be less difficult to resist. However, this argument is weakened by the fact that Parliament would not have approved the scheme until Summer 1989. Ministers are therefore going to be under pressure to extend its scope in the months ahead whether or not we have legislation.

5. One other consideration we need to keep in mind is that we may want DHSS to carry through other legislation later in the year, some of which would be controversial. Legislating for the transitional scheme would add to their burdens.

Conclusions

6. There is no doubt that, as far as propriety is concerned, there ought to be legislation. The other arguments are less clear cut.

7. One other option is to make no decision now but to ask Mr Moore to reconsider the position in the Summer when the scheme is up and running, and the problems of legislating can be better judged. However, this is something we might consider putting to him if he continues to argue strongly against legislation.

8. I attach a draft letter which puts the onus on Mr Moore to justify not legislating, the convention notwithstanding.

JM

J P MCINTYRE

DRAFT LETTER TO: RT HON J MOORE, SECRETARY OF STATE FOR
SOCIAL SERVICES

HOUSING BENEFIT: TRANSITIONAL SCHEME

One important matter which we did not resolve in discussions earlier this week was the question of whether there should be legislation to cover the payments under the new transitional scheme. In your minute to the Prime Minister of 26 April, you argued that legislation would give rise to a resurgence of discussion of the structural changes in the benefit system and hence would be best avoided.

However, as your minute also rightly pointed out, it would be unusual to run a scheme on this scale for several years with no statutory backing and that the normal conventions would require primary legislation in due course. I have to say that I think this is a powerful argument.

Your officials have told mine that they see practical objections to legislation. But, even in these terms, I am not sure that the arguments are clear cut. It may be more difficult to resist pressure to extend the scope of the scheme if it is discretionary and not established by regulations which have been approved by Parliament. I know that you may face these pressures in the next few months, whether or not the scheme is to be covered by provisions in the next Session's Social Security Bill. But subsequently the existence of regulations might be helpful in this respect.

For these reasons, I hope you will reconsider your view that legislation should not be taken for this purpose.

I am sending a copy of this letter to the Prime Minister, the Lord President, and Sir Robin Butler.

JOHN MAJOR



mp

Ch

I gather CST is writing. There is a social security bill this can be talked on to.

Gov:

AM

CONFIDENTIAL

FROM: J. ANSON
29th April, 1988.

CHIEF SECRETARY

[Handwritten signature]
[Handwritten note: (V...)]

c.c. Chancellor
Sir P. Middleton
Mr. Phillips
Mr. Beastall
Miss Peirson
Mr. Turnbull
Mr. McIntyre
Mr. Hurst
Mr. Ramsden
Miss Wheldon (T/Sol.)

HOUSING BENEFIT: TRANSITIONAL SCHEME

I strongly support Mr. McIntyre's advice (in his minute of 28th April) on the question of primary legislation for this scheme.

2. I sense that - no doubt as a consequence of the congestion of the Parliamentary timetable - there is an increasing preference at present to rely on inherent powers, and finance approved solely through the Appropriation Act, rather than seeking specific legislation. But the so-called 1932 Concordat is quite tightly drawn, and the Treasury have clearly undertaken to aim at its observance. I think therefore that we ought to press departments firmly to observe it, and that any derogation from it should be a collective decision.

3. The usual reasons advanced for not complying with the Concordat are either that it is de minimis, or that it is a one-off exercise which would anyway be over before legislation could practicably be enacted. But neither of these excuses run in this case. It is a large amount of money, and with a £2.50 limit on the transitional losses, it seems likely to continue possibly for some years. And it affects the entitlement of individuals, which is another reason for defining those entitlements in or under statute.

CONFIDENTIAL

4. In the past couple of months I have seen two Opinions by the Solicitor-General on the question whether payments could be made under inherent powers. In both of them he has been careful to say that even where, in law, the Appropriation Act provides sufficient sanction, the constitutional proprieties (ie the Concordat) must be observed. In one of these Opinions he added the caveat that "The vast increase in the size of the statute book since 1945 has resulted in the Government being given an extensive range of express powers. This should give rise to caution in the use of inherent powers, lest they be called in question in a case where their use has been inappropriate".

5. There is in fact, as he is hinting, a point here of self-interest, as well as propriety, for the Government. There is obvious advantage in the degree of flexibility which properly exists within the Concordat. It would obviously be time-consuming and unnecessary to seek primary legislation for, say, a contribution to the Bradford Fire Disaster Fund. But if the Government were to dispense with legislation in a case where this seemed to Parliament generally to be inappropriate, and the PAC were to take the matter up again as a matter of principle, then the final outcome might be less flexibility than we already have.

6. I hope therefore that you will be prepared to write as Mr. McIntyre and Mr. Beastall are recommending. At the top of page 2 of the draft, I would prefer to see "I must ask you to reconsider" rather than "I hope you will reconsider".


J. ANSON

Copy No 1 of 3



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From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

19 April 1988

CH	QUER
REC	29 APR 1988
ACT	CST
COPIES TO	

✓ 29/4

SECRET

Dear Nigel,

... I know the Prime Minister has had a word with you about the enclosed. I am arranging for officials to discuss it at her request, and I have for that reason, sent a copy to John Major today.

I do think it is a scheme with very considerable advantages. If you would like to have a private word with me about it I would be delighted to discuss it with you next week.

Ch/ do you want private word next week?

mpw

29/4

[Handwritten signature]

The Rt Hon Nigel Lawson MP
The Chancellor of the Exchequer
HM Treasury

[Handwritten notes in red ink:]
Happy to discuss with
P.S. he's not here
an analysis by the
approach just. (computer, reluctant)
Don't say we scheme about
can be a better way. Don't say
Also need to know the
mass: close to
have had a
scheme in
water



FROM: MISS M P WALLACE

DATE: 29 APRIL 1988

CHANCELLOR

HOUSING: SALE OF PLANNING PERMISSION ETC

*More grants for
5pm. As yet, nothing in the
18/2
discuss in his paper of 21/3,
+ no show in his paper
in his letter
gas 1/2. I will write
this. The grant is
but want to write
the premium
developer
Mr B's paper for an
Manchester
grants. However, I see
proceeds of grants
miss @ 4.*

You said that after the Budget you would return to the idea of enabling LAs to sell planning permission, and various other Tyrie supply-side ideas. Sorry not to have to put the papers in to you again before now, but they got rather forgotten about in Budget aftermath, Washington etc.

2. You have already raised the idea of selling planning permission with Mr Ridley, and had a pretty negative response (his letter of 25 February). Our officials also have questions - Mr Instone's minute of 19 February, and Mr Byatt's minute of 21 March. Do you want to take this one further with Mr Ridley, and if so, is the Byatt model (paras 23-25 of his paper) the sort of thing you have in mind?

3. Quite apart from this, Andrew Tyrie's minute of 29 January set out a number of his ideas, plus some from DoE, which you thought might be worth pursuing:

- "one into two schemes";
- launching an initiative on publicly owned unused land;
- confiscation of empty LA dwellings;
- relaxing building and safety regulations.

Y/

Shall we get officials working on some of these, with a view to producing a paper for you to send to Mr Ridley?

M.P.W.

MOIRA WALLACE

CONFIDENTIAL



mp

3/5

CH/EXCHEQUER	
REC.	03 MAY 1988
ACTION	CST
COPIES TO	

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 April 1988

HOUSING BENEFIT

It may be helpful if I record the outcome of two meetings the Prime Minister held on 26 April to discuss possible adjustments to the housing benefit arrangements. Those present were the Chancellor of the Exchequer, the Secretary of State for Environment, your Secretary of State, the Lord President, the Chief Secretary, the Chief Whip and the Minister for Social Security. The meetings considered your Secretary of State's minute of 26 April.

Following discussion it was agreed that the package of adjustments, to be announced on 27 April, should focus on two main changes. First, the capital cut off limit for housing benefit (but not for other benefits) should be raised to £8,000, but with the lower limit at which capital was taken into account remaining at £3,000. It was estimated that this would add some £30 million to benefit expenditure.

Second, there should be a transitional scheme to make good housing benefit losses in excess of £2.50 a week for pensioners, the disabled and families with children. This scheme would not however cover rent and rates increases operating from April 1988 onwards. This package would add some £70 million in 1988/89 to benefit expenditure. It would be operated centrally by DHSS. The estimated additional administrative costs of this operation should be discussed further between DHSS and the Treasury.

In addition it was agreed that your Secretary of State would introduce a number of further minor adjustments to the housing benefit arrangements, including adjustments to the way in which the value of property is treated if the house is not being occupied by a claimant or their spouse.

I am copying this letter to Alex Allan (H.M. Treasury), Roger Bright (Department of the Environment), Alison Smith (Lord President's Office), Jill Rutter (Chief Secretary's Office), Murdo Maclean (Chief Whip's Office) and Nick Bromleu (Minister for Social Security's Office).

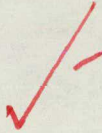
PAUL GRAY

Rod Clark, Esq.,
Department of Health and Social Security



H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-270 3000
Direct Dialling 01-270.....4.7.9.9John Hughes Esq
DHSS
Richmond House
Whitehall
LONDON SW1

29 April 1988

Dear John,

HOUSING BENEFIT: TRANSITIONAL SCHEME

I mentioned to you this morning the attached report in The Independent saying that your Department had "confirmed" that the transitional scheme would cost between £25 million and £28 million to administer.

2. You kindly agreed to try to establish the origins of this report. As you know, no estimate of the administration costs has been agreed between us, pending your detailed proposals for the setting up and operation of the new unit. Until we have agreed on what these extra costs are, the line to take in response to questions must be that it is not yet possible to put any figure on the additional administrative costs.

3. I am sending a copy of this letter to Don Brereton.

Yours,
J P

J P MCINTYRE

Extract from The Independent.
29.4.88.

Reference

Anger over benefit running cost

THE GOVERNMENT yesterday announced another **£1m** in social security reform concessions as the DHSS confirmed that **£70m** of the temporary protection it is to give to big losers under the housing benefit changes will cost between **£25m** and **£28m** to administer.

The temporary protection is to be run by a DHSS unit which is unlikely to start functioning fully before the end of June.

The administration bill brought protests from the Child Poverty Action Group, which argued that added protection would be an "administrative nightmare" for claimants.

The Institute of Housing said the administrative cost was "outrageous" and it would be asking the Public Account Committee of the House of Commons to investi-

By Nicholas Timmins
Social Services
Correspondent

gate it. The CPAG said: "The Government's great argument for changing housing benefit was that it would be a simplified system. We'd much rather they had listened to the critics in the first place who were predicting these difficulties so that the money could have gone to the claimants who need it and not on administrative changes to patch up the system."

Local authority associations warned that some claimants on housing benefit would now be receiving three cheques — one for income support, one for housing benefit and one for the temporary extra protection to limit their

losses — before any rent and rate rises this year — to **£2.50** a week.

Jack Layden, chairman of the Association of Metropolitan Authorities, said: "These changes will simply add to an administrative machinery worthy of Heath-Robinson."

Announcing the changes in the Commons, Nicholas Scott, Minister for Social Security, said that a judgement had had to be made between the administrative costs of providing extra protection and the benefits that would ensue.

Yesterday he announced another **£1m** of temporary concessions, providing protection for existing students on supplementary benefit who would otherwise have lost, and for groups whose income was artificially cut the week before the changes came in — for example claimants who

were in hospital. Disabled people, single parents and pensioners in some part-time work who would have lost heavily will also receive temporary protection until benefit rates catch up.

While the changes, costing a total of **£101m**, have placated the Conservative backbenches, others argued the poorest losers from the changes do not gain.

Those helped by the capital cut-off for housing benefit being raised to **£8,000** will include pensioners with small occupational pensions and savings. But the poorest claimants on income support, and unemployed people who would otherwise fall back on income support but have some savings, will still lose all right to benefit if their savings are above **£6,000**.

Parliament, page 6