

PO-CH/NL/0235

ANN 1 PART A

Chex
Lawson

~~PART B~~

ANN.1 PT.A

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PO -CH /NL/0235



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Cuc

on the housing market:

CHANCELLOR'S PAPERS ON
THE HOUSING MARKET:
FLEXI-OWNERSHIP

PO -CH /NL/0235

ANN.1 PT.A

ANN.1 PT.A

Begin: 1/4/88

Ends: 1/4/88

DD: 25 years

20/9/95

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RIGHT TO BUY

FLEXI-OWNERSHIP

A PROPOSAL

BY THE

SECRETARY OF STATE FOR WALES

April 1988

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RIGHT TO BUY "FLEXI - OWNERSHIP"

Tenant buys freehold for £1

Pays no rent or mortgage

Receives no Housing Benefit

**State shares the proceeds
when the house is sold**

**Tenant's equity share related
initially to his Right to Buy
entitlement.**

HOW EQUITY - SHARING WORKS

Tenant credited with initial equity stake equal to his Right to Buy discount minus 5 percentage points

Credited with additional 1 percent for every year he stays up to normal maximum Right to Buy discount

Can buy additional equity at market value in steps of $\frac{1}{2}\%$

Credited with 1% bonus for each 5% bought (max. 5 bonus points in first 5 years)

THE STATE'S EQUITY SHARE

Held by Housing Corporation

Initial valuation of house by
District Valuer (as for Right to Buy)

Equity revalued annually in line
with local house prices

Corporation's share when house
sold based on initial valuation
indexed up.

Tenant retains added value if
house improved. But tenant bears
loss in value if house neglected.

ADMINISTRATION

All done by building societies -
no additional bureaucracy.

Ex - tenant given "Equity Save"
account.

Pays in as and when he can afford.

Receives normal building society
rate of interest.

When sum saved = current cost
of $\frac{1}{2}$ % equity, tenant's equity
stake automatically increased.

REPAIRS

Flexi-owner responsible for repairs

**Entitled to sell part of equity
to Corporation to pay for major
repairs.**

**Eligible for means-tested
renovation grants**

TARGET CLIENT GROUPS

1. Tenants paying some rent from own resources
2. Elderly tenants with maximum discount on full Housing Benefit
Secure asset for family - family helps with repairs
3. Younger tenants on full Housing Benefit who would find it worthwhile to work again if they did not have to pay rent

TYPICAL FAMILY MOVING INTO FLEXI-OWNERSHIP

Mr and Mrs Jones plus two children aged 13 and 9

gross annual income = £5,000

weekly rent £18 = £936 p.a.

weekly housing benefit £14.07 = £732 p.a.

House worth £20,000

Have been tenants for 15 years, so entitled
to 40% equity share.

Jones' acquire capital asset worth £8,000

Save £3.93 per week, £204 p.a. on rent
now available towards repair and
maintenance costs and possible
further equity purchase.

State saves £732 annually on housing benefit

Net present value: £10,980

but disburses £411 annual cash subsidy
to local authority

Net present value: £4,634

ESCAPING THE POVERTY TRAP

Tenant's costs limited to repairs

No Housing Benefit:

no benefit to lose on taking job

FLEXI-OWNERSHIP AND THE EMPLOYMENT TRAP
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Mr and Mrs Lewis plus one child aged 4
weekly rent £18 = £936 p.a.

weekly community charge £6 = £312 p.a.

If Mr and Mrs Lewis are unemployed, they will receive State support and child benefit totalling	£68.35 p.w.
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Housing Benefit will cover all the rent and 80% of the community charge, so Mr Lewis pays	£1.20 p.w.
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Leaving a disposable income of	£67.15 p.w.
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If Mr Lewis takes a job at £5,500 p.a., his weekly income net of usual deductions would be	£96.73 p.w.
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After Housing Benefit of £9.28, Mr Lewis pays net rent and community charge of	£14.72 p.w.
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Leaving a disposable income of	£82.01 p.w.
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Mr Lewis is now in employment and is better off by	£14.86 p.w.
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But if fares cost £5.00 p.w. his income has risen by only	£9.86 p.w.
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If the Lewis family take up Flexi-ownership, their disposable income, after deductions and fares rises by	£21.82 p.w.
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JOB MOBILITY

**Flexi - owners entitled to
swap houses with adjustment
of equity share
(Value of Corporation's equity
unchanged)**

POTENTIAL TAKE UP

No take up in bad houses

Of those who like their homes:

20% may go for classical RTB

40% may stay as tenants

40% may opt for flexi - ownership

HOUSING BENEFIT SAVINGS

25% flexi-owners on full benefit

75% average 30% benefit

**Overall, savings on Housing Benefit
= £450 per house**

Average duration in benefit = 15 years

**Net present value of Housing Benefit
saving per house = £6750**

LOCAL AUTHORITY DEBT: SUBSIDY PER HOUSE
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Net debt per house	3803
•• interest charges	379
principal repayment	95
	<hr/> 474
less existing Housing Subsidy and rate fund contributions	-63
	<hr/> 411
New subsidy needed:	
debt cleared in 17 years.	
Net present value £4634.	
 c.f. annual saving on Housing Benefit = £450	
Net present value £6750	

WALES: THE FIRST FIVE YEARS

ANTICIPATED TAKE-UP
(Thousands of dwellings)

	YEAR				
	1	2	3	4	5
Flexi-ownership purchases	10	30	20	13	12
Onward sales	0	0	1	2	2

COST / BENEFIT ANALYSIS
(£m Net Present Value)

Housing subsidy cost	4.1	15.7	22.2	25.1	27.4
Housing Benefit saving	4.5	18.0	26.8	31.9	36.5
Net Housing Corporation income	.7	2.8	9.1	21.9	23.6
Net saving on Public Expenditure	1.1	5.1	13.7	28.6	32.7

