

PO-CH/NL/0235

PART B

Clare  
Lawson

PART B

**SECRET**

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PO -CH /NL/0235



PART B

*Papers on the Housing*

CHANCELLOR'S PAPERS ON  
THE HOUSING MARKET

PO -CH /NL/0235

PART B

PART B

Begin: 3/5/88

Ends: 8/7/88

DD: 25 years

20/9/95

CONFIDENTIAL


 BF 17/5 km.  
 FROM: MOIRA WALLACE ~~20/5~~  
 DATE: 3 MAY 1988 25/5

MR INSTONE

 cc PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Paymaster General  
 PS/Economic Secretary  
 Sir P Middleton  
 Sir T Burns  
 Mr Anson  
 Mr Monck  
 Mr Phillips  
 Mr Hawtin  
 Mr Spackman  
 Mr Potter  
 Mr Betenson  
 Mrs Holmans  
 Mr Tyrie
**HOUSING: SUPPLY SIDE MEASURES**

You will have seen that the Chancellor has decided not to pursue further with Mr Ridley the idea of enabling local authorities to sell planning permission. However, he would still like to write to Mr Ridley, proposing various supply side measures in the housing field. He has in mind the following:

- i. removing the requirement for planning permission for sub-division of residential property into two separate dwellings;
- ii. taking another look at building and safety regulations, to see if there is scope for any relaxation;
- iii. an initiative to develop publicly-owned unused land, especially in London;
- iv. confiscation of empty dwellings from local authorities;
- v. re-examination of the guidelines to District Valuers, in order to ensure that council flats are not overvalued for Right to Buy purposes.



2. I should be grateful if you could provide a short note for the Chancellor to send to Mr Ridley, setting out the case for a package of this kind.

*Mpw.*

MOIRA WALLACE



3/5/88  
✓  
mpf

PRIME MINISTER

HOUSING BENEFIT PACKAGE: ANNOUNCEMENT OF FURTHER DETAILS

I undertook to give a Written Answer tomorrow to clarify:-

1. The people who are affected by the changes announced last week.
2. The way in which the protection against significant cash losses will be calculated.
3. Procedures for handling claims and making payments.

A draft of the Written Answer is attached. Further details on the main issues are set out below.

The People Protected

Any household can benefit from the extension of the capital rule from £6,000 to £8,000. The majority of those affected are pensioners.

The transitional scheme provides protection against large losses for:-

- \* All pensioners (as defined for the purposes of income support and housing benefit.)
- \* Widows in receipt of a widows pension - the qualifying age is 45.
- \* The sick and disabled. The main criterion will be entitlement to a disability premium with the specific additional inclusion of those in receipt of industrial injuries benefits.
- \* All families with children including lone parents.

The total number of households assisted by this scheme and the extension of the capital limit is over 300,000 at a cost of some £100 million.

People not protected

No protection is available to households with savings in excess of £8,000. The introduction of a £6,000 capital cut-off removed all entitlement to housing benefit from over 300,000 households with average losses of over £5 a week. The extension to £8,000 reduces this figure by about 100,000.

CHIEF SECRETARY	
REC.	3 - MAY 1988
ACTION	Mr McIntyre
COPIES TO	Cx, Mr Phillips



*non h*  
The groups excluded from the arrangements for transitional protection are pensioners without children. In the over 25 age groups these are mostly unemployed single people and couples including some widows who are both childless and under 45 years of age. Those excluded in the under 25 age group will include students as well as those not in work. Altogether we estimate that about 100,000 households in these groups will have losses of more than £2.50 without entitlement to any transitional protection. The cost of extending protection to these groups is likely to be relatively small, of the order of £10-15 million, but they are not groups to whom we would attach a high priority. Moreover, it would be inconsistent with our overall policy to bring back into benefit groups such as students and others under 25 years of age.

The overall number of people who lose housing benefit is virtually unchanged by these arrangements as the principle aim is to avoid large cash losses, that is over £2.50, after taking account of the minimum contribution to domestic rates.

#### Calculation of Transitional Protection

The basic formula used in the draft Written Answer is a cash comparison of housing benefit before and after the reforms adjusted to take account of the minimum contribution to domestic rates. This is operationally relatively straight forward.

The exclusion of the minimum contribution to domestic rates means that on average we would expect the cash reduction in benefit to be nearer £4 per week before any transitional payment is made. The calculation automatically excludes any protection from the cost of rises in rent and rates. Where these are significant this would quickly lead to much bigger reductions in disposable income, for example of £10, after meeting housing costs. The principles were clearly stated in the announcement during the debate but not the detailed effects. We will have to defend our position as and when the detailed effects emerge. There can be no doubt however that what we are seeking to address is the effect of the new rules, and not the requirement to contribute towards domestic rates nor the effects of higher rents and rates.

#### Procedures for Handling Claims and Making Payments

The rule changes in income support can be effected immediately as set out in the previous Written Answer on 28 April (copy enclosed). This deals with some of the most urgent individual cases. Arrangements for setting up the initial offices of the central unit, which will allow the publication of Free post and Freephone facilities, are well advanced and we are currently in discussions with the representatives of local authorities to establish the role they can play. Our aim is that the Department should be in a position to publicise these arrangements early next week. It is too early to say when the first payments can be effected but we will be in a position to receive urgent requests for help within the next few days.



The frequency of payments and the procedures for phasing these out will need to be considered in consultation with the Chief Secretary when we have received sufficient claims to be able to take a more informed view of these issues.

Subject to your views and those of the Chief Secretary I will arrange for the Written Answer to be published at 2.30 tomorrow and a further Press Statement issued at the same time.

I am copying this minute and enclosures to the Chief Secretary.

N.S.

3 May 1988

NICHOLAS SCOTT

RC/2009p

To ask the Secretary of State for Social Services if he will give details of the changes to social security announced on 27 April.

The measures announced last week included changes to the rules of the housing benefit and income support schemes and arrangements to provide transitional protection to those claimants in vulnerable groups who have lost significant sums at the point of change to the new schemes.

First, we propose to increase the limit on the amount of capital which renders a claimant ineligible for receipt of housing benefit. Subject to the necessary consultation with local authorities and others, this change will be made as soon as possible to take effect from the date when the regulations become effective.

Second, some minor changes are being made to the detailed rules of income support and, where applicable housing benefit. In particular we are amending the procedures for taking account of the value of a home no longer occupied by a claimant: for example, because the claimant has been admitted to long term residential care or has left the marital home because the marriage has broken down. There will now be a period of 26 weeks to allow for the disposal of the property, with provision for extension in exceptional cases of genuine difficulty. Other detailed changes including those to provide transitional protection to people affected by the changes in rules relating to full-time work are described in an Answer to the hon Member for Saffron Walden on 28 April (Official Report, Cols 253-254).

The third main change is the introduction of a measure of transitional protection for pensioners, that is those eligible for a national insurance pension including women in receipt of a widow's pension, sick and disabled people (including those in receipt of industrial injuries benefit) lone parents and families with children who have lost significant sums in housing benefit as a result of the changes introduced on 1 April. The scheme will include those in the relevant groups with capital between £6,000 and £8,000 who will have lost all entitlement to housing benefit between 1 April and the operative date of the change to the capital rule.



The precise details of assessment will be decided in the light of detailed discussions with the representatives of local authorities about the information that can readily be provided. The main basis for payments will be a comparison between the cash sum received by claimants as housing benefit and housing benefit supplements immediately before 1 April and their present cash amount of housing benefit. For those affected by the change to the capital rules the comparison will be with the cash entitlement after the new limit of £8,000 is applied. The comparison will be adjusted to take account of the minimum contribution claimants are required to make to domestic rates which will not be eligible for any protection beyond that already included in the personal allowances. Transitional payments will be designed to ensure that the resulting cash difference does not exceed £2.50 a week. Payments of family income supplement and family credit will be taken into account in making the comparison, with a standard allowance for the loss of entitlement to free school meals.

These transitional payments will be made from a new central unit within the Department. Payments will be made monthly, or less frequently for small amounts, continuing unless there is a significant change in the claimant's circumstances. They will not be uprated and, as is usual with transitional arrangements, will be phased out as increases in benefits and other changes reduce the necessity for them. The period of phasing will vary from case to case, but for the larger losses protection may be necessary for several years. The new unit will take some weeks to set up, but detailed procedures for claiming these payments will be announced as soon as possible and payments will be backdated to 1 April.

We estimate that the full benefit cost of these measures will be some £100 million in the current financial year. Parliamentary approval for the payments will be sought in a Supplementary Estimate; pending that approval, urgent expenditure of up to £25 million will be met by repayable advances from the Contingencies Fund. The provision for administrative costs of local authorities in paying housing benefit will also be adjusted as necessary to reflect additional work arising from these changes. The public expenditure costs of these various measures will be met from the Reserve within the announced planning total.

Thursday 28 April 1988  
Written Answer

PQ 6345/1987/88  
Han Ref Vol 132  
Col

253 - 254

INCOME RELATED BENEFITS

202 Mr Alan Haselhurst (Saffron Walden):

To ask the Secretary of State for Social Services, whether he proposes changes to the income support scheme in the light of his announcement of 27th April.

MR NICHOLAS SCOTT

In addition to the more flexible approach to the treatment of property as capital which my right hon Friend, the Secretary of State announced yesterday, we propose making three other small changes to the rules governing the income related benefits.

We will provide transitional protection for disabled people, lone parents and pensioners who were receiving supplementary benefit but who are not entitled to income support because of changes in the rules relating to full-time work.

Second, we will also provide that certain young people in full time education who lost their benefit on 11 April because they were over 19 years old will get protection. Both these groups of people will be able to look for this special help to the new central unit, announced yesterday.

Third, we intend to give additional protection to certain small groups who were temporarily away from home during the week before 11 April. We have in mind for example, people who were temporarily in hospital or respite care and those who were abroad getting medical treatment. This extra help will be provided through the income support scheme.

These additional minor changes will be introduced as soon as practicable and will target help to particularly vulnerable groups. Procedures for claiming these new forms of transitional protection will be announced shortly.

CONFIDENTIAL


 FROM: MISS M P WALLACE
 B
~~mp~~
BF 24/5

 DATE: 3 May 1988
 27/5

MR BYATT

 cc PS/Chief Secretary  
 PS/Financial Secretary  
 PS/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
**HOUSING: SALE OF PLANNING PERMISSION ETC.**

The Chancellor has now considered your minute of 21 March, for which he was most grateful. He has commented that if we were to pursue this idea, we would want to confine it to permission for industrial/commercial development, since, as paragraph 15 of your paper points out, post-1990 local authorities will already have a direct incentive to housing development. But in the light of the genuine difficulties set out in your paper, the Chancellor is not minded to pursue this further at this stage.

MOIRA WALLACE

## CONFIDENTIAL

FROM: P J CROPPER  
DATE: 6 May 1988

CHANCELLOR

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

HOUSING BENEFIT CUT-OFF

As the dust settles from last week's rumpus, may one register an on-going concern about the capital cut off system? I doubt whether, now that the spotlight has been on it, the issue will go away.

2. Take two brothers, living next door to one another in two bungalows at Worthing, each worth £100,000. Fred is hale and hearty, dies in his bed at 85, leaving £106,000 to his heirs. George has a stroke at 70, has to go into an Old Peoples' home and sell his house. The proceeds of that sale are regarded as free capital. George goes on until 85, leaving £6,000 to his heirs.

3. True, the social security system does not exist primarily for heirs. On the other hand, it is no good going around saying "nearly everybody in future will inherit capital, because nearly everybody's parents own their houses", and then trying to pretend that the Fred and George problem does not exist. George's heirs will certainly think it exists, and so will an increasingly depressed George, as he sees all his money syphoned off into residence charges in the Old Peoples' home.

4. I suppose Mr Butterfill had one solution, via the monetisation of private housing assets. Fred, in the above example, really ought to be forced to draw down the value

of his house if we are interested in equity between the two brothers. More particularly so, if one reminds oneself of Emily, who did a school cleaning job for thirty years and did not manage to save a brass farthing for her retirement. She is, on one reading of the situation, more needy than either of the brothers.

5. What we really need is something which ties the cost of standard elderly persons/nursing home accommodation to the size of the Old Age Pension. Or vice versa. Then there would be no need for housing benefit for the elderly. Maybe we should move towards a two-tier OAP, with a considerably higher amount for those over 70, or over 75. Or, perhaps, for those certified as disabled and unable to live on their own.



P J CROPPER

CONFIDENTIAL

paw

X may not be possible  
 but it is clearly essential,  
 given our serious  
 misgivings about the  
 overall public expenditure

FROM: GINA HASKINS

DATE: 6 May 1988

1. MR HAWTIN
2. CHIEF SECRETARY

cc  
 implications of the  
 need for further work on  
 these and on other aspects  
 of the proposal.

PS/Chancellor ←  
 Mr Anson  
 Mr Phillips  
 Mr Hawtin  
 Miss Peirson  
 Mr Turnbull  
 Mr MacIntyre  
 Mr Ramsden  
 Mr Betenson  
 Mrs Holmans  
 Mr Cropper  
 Mr Tyrie  
 Mr Call

45

### RIGHT TO BUY (RTB): FLEXIOWNERSHIP

→ to CST and  
 Ridley as well  
 as you

The Secretary of State for Wales has provided an outline of his proposals for Flexiownership of local authority housing (attached). Welsh Office officials have indicated that their Secretary of State will want the official group on Local Authority housing finance (see Mr Betenson's briefing to you of 6th May) to cover his proposals. He may seek a discussion of the proposals at the ministerial meeting on housing policy to be held on Monday evening.

### Recommendation

- X | 2. I recommend that you avoid substantive discussion of the flexiownership proposals at Monday's ministerial meeting. The financial implications of the policy may be unacceptable but the issues have not yet been explored satisfactorily at official level.
- Y | It is important to avoid any commitment being made at the meeting to the policy. You should try to avoid having the proposals considered by the official group looking at the wider local authority housing proposals but you could agree that if pressed.

### Background

3. The Flexiownership proposal is essentially to enable local authority tenants to exercise Right to Buy, but to defer payment for the non-discounted element of the home either until the tenant

feels able to make some payment or wishes to sell the property. Under the proposal the tenant would be able to purchase the freehold of his home for £1. The tenant could then live in the property (as flexiowner) rent-free, and so would lose any housing benefit entitlement in respect of rents (though he might remain entitled to rate rebate). He would, however, be responsible for the maintenance of the property. When a flexiowner decided to sell a property, he would be subject to a charge payable to the Housing Corporation. The amount of the charge would be determined by the residency qualification of the flexiowner (as with purchase price under the Right to Buy). The tenant could reduce the eventual charge by deciding to purchase further equity in the property at market value during occupancy. Alternatively, he could "sell" at market value some of the equity that he purchased for £1 back to Housing Corporation in order to fund major repairs to the property.

4. The public expenditure effects of the Flexiownership will be considerable and have not been assessed. The policy is likely to lead to an immediate drop in local authority conventional Right to Buy receipts. Although the Welsh Office claim that the scheme has been structured to prevent this replacing Right to Buy, they have made some dubious behavioural assumptions. In effect, the policy involves a confiscation of local authority assets, leaving only the outstanding loan debt. Local authorities would need increased housing subsidy to fund the outstanding loan debt (replacing the rental income). There would be savings in housing benefit, to set against these costs, as the Flexiowner would not pay rent. But, <sup>an</sup> initial assessment of the policy is that it would be likely overall to lead to net costs rather than benefits to the Treasury. The public expenditure effects require further consideration before a balanced view of Flexiownership can be made.

5. This proposal does not address the question of the long term future of local authority housing. The Welsh Office foresee local authority housing stock in Wales reducing by a half in five years as a result of this proposal combined with traditional Right to Buy. The question of local authority housing finance still, therefore, needs to be considered, whether or not this proposal is carried forward. It is important therefore that the two issues are considered separately by Ministers. The Welsh Office have not considered any effects the proposals would have as an incentive

for local authorities to transfer their housing stocks quickly to a new landlord, to ensure that they and not the Housing Corporation benefit from the receipt.

6. The costings and assumptions made in the document setting out the proposals are being discussed and still need to be agreed at official level. For example, the Welsh Office have agreed that the proposal will result in strong pressure for the receipts from Flexiownership to be used to fund additional new build by housing associations. Yet in their cost/benefit analysis all the receipts are offered as a saving. Equally serious is the low assumption made in the document of the cost to the Housing Corporation of the proposal to allow the Flexiowner to "sell" equity to the Corporation to finance major works of repair. In addition, Treasury and DOE officials still have queries on the assumption made about the types of tenants likely to take up the proposal and on the timing of any receipts, which fundamentally affect the results of the cost/benefit analysis (if the proposal is taken up mainly by tenants not in receipt of housing benefit, the "savings" identified by the Welsh office disappear). The Welsh Office have also not yet provided figures showing the effects of the proposals on the PSBR and on a cash flow basis.

7. It is clear that further urgent work is needed at official level, but it may be preferable to keep the remit of the working party of officials that is shadowing the ministerial group confined largely to the subject of local authority housing finance, rather than broadening it to include a largely separate policy issue. Officials should not be distracted from tackling the question of local authority rented housing. Flexiownership could then be worked up separately at official level for later discussion by Ministers. However, you may not be able to avoid the two issues being taken forward together.

*Gina Haskins*  
GINA HASKINS



FROM: A G TYRIE

DATE: 6 MAY 1988

CHANCELLOR

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

HOUSING BENEFIT CUT OFF

*behind*  
*X*

I have seen Peter Cropper's note of 6 May.

It may well be that the issue will not go away. But I am quite sure that we should not rearrange the social security system for the benefit of heirs. I can also see some appalling public expenditure consequences from Peter's suggestion that nursing and accommodation be linked to the size of the basic pension, (his paragraph 5).

Unlike Peter I agree with the capital cut off system. Of course, those who save and look after themselves 'lose out', in the sense that they are not rewarded by the State for their thrift. But that is the inevitable consequence of targeting benefits where they are most needed.

*I am grateful to  
Peter Cropper & Tyrrie.  
My vote goes to M.G.  
The real anomaly is that  
£100,000 can sit in a  
bungalow or  
with a dip about  
taxpayer's pocket to help  
many who can't  
a £100,000 bungalow  
We really can't  
people with support  
as well.  
Mr*

*PP*  
*RJ*  
A G TYRIE



A handwritten signature in dark ink, appearing to be 'M P Wallace'.

FROM: MISS M P WALLACE

DATE: 9 May 1988

MR CROPPER

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

**HOUSING BENEFIT CUT-OFF**

The Chancellor was grateful for your minute of 6 May, and Mr Tyrie's of the same date.

2. His vote goes to Mr Tyrie. The real anomaly is that Fred can sit on a £100,000 bungalow in Worthing, and dip into the taxpayer's pocket for help with his rates - "the taxpayer" including many who couldn't dream of owning a £100,000 bungalow in Worthing. The Chancellor thinks we really cannot burden these people with supporting George as well.

A handwritten signature in dark ink, appearing to be 'M P Wallace'.

MOIRA WALLACE

Why ● this is getting ridiculous:

Good question -  
pro pass or  
less?

- ① How many times is DTSS suggest we compensate for 20%? At least the addition to personal allowances was flat-rate - but this looks like compensation for actual amounts, and not netting off the £1.30 they've already had.
- ② 20% of this year's rates or last year's?
- ③ How do DTSS propose to twist Scott statement to match this interpretation, and do they think doing so will make Mr Cook withdraw accusation of muddle?  
(He will just move on to his next complaint if he sees that it works)
- ④ How would we justify the distinction?
- ⑤ And I wouldn't trust DTSS that this really can be included in their £100m - they aren't famous for overforecasting.

mpw 11/5

CONFIDENTIAL

FROM: J P McINTYRE

DATE: 11 May 1988

CHIEF SECRETARY

CC:

Chancellor  
Mr Anson  
Mr H Phillips  
Miss Peirson  
Mr Turnbull  
Mr Potter  
Mr Ramsden  
Mr Call

## HOUSING BENEFIT: TRANSITIONAL SCHEME

This is to warn you that DHSS want to change one of the elements in the scheme. They want to change the basis of calculating the transitional payments so that the minimum 20 per cent rates contribution would not be deducted. DHSS want to be able to make this clear tomorrow (Thursday), partly in response to Robin Cook's article in The Independent today (attached), I have told them that DHSS Ministers should write to you with their proposals. But either Mr Moore (perhaps after Cabinet) or Mr Scott may lobby you personally about it.

2 Mr Scott's minute to the Prime Minister of 3 May was quite clear on this point:

"The exclusion of the minimum contribution to domestic rates means that on average we would expect the cash reduction in benefit to be nearer £4 per week before any transitional payment is made."

That is, the minimum loss in order to qualify for a transitional payment would be £2.50, plus the 20 per cent rates contribution which averages £1.30.

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3 Mr Scott's Written Answer on 5 May also made the point:

"The comparison will be adjusted to take account of the minimum contribution claimants are required to make to domestic rates which will not be eligible for any protection beyond that already included in the personal allowances."

4 DHSS now want to tell Mr Cook that he is wrong to have interpreted this as meaning that all claimants would have the 20 per cent contribution deducted. The only deduction for this purpose would be for claimants who were paying some rates, but less than 20 per cent, last year and who were now brought up to the minimum of 20 per cent.

5 DHSS say the cost would be around £10 million and could be found from within the £100 million total agreed for the package. I have asked for the detailed figures underlying this claim, though, as you know, we have already discovered that the existing package had been costed on a generous basis. So DHSS may well be able to argue that there will be no extra cost.

6 Our own view is that it is right for the 20 per cent to be deducted, assuming we want to make this new requirement bite on those who are on HB but above IS levels of income. Their rate contributions now consist of the minimum 20 per cent contribution, plus (20) per cent of their incomes above IS (the rates taper). If we had not introduced the minimum contribution their rates would have been simply 20 per cent of their incomes above IS.

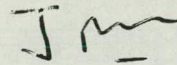
7 Moreover, the £1.30 which has been added to IS to reflect the average rates contribution, benefits all those getting rate rebates, because the threshold at which the rates taper

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starts to bite is £1.30 higher than it would otherwise be. (This is particularly helpful for those getting rent and rate rebates, who save £1.10 as a result - 85 per cent of £1.30).

Conclusions

8 DHSS feel they need to make this change to help kill off the HB issue and that they have the money to do it within the £100 million agreed. We do not think their case is good. Before any concession on political grounds, they should at least have to demonstrate they can find the money.



J P McINTYRE

# A Heath Robinson solution to the problem of housing benefits

INDEPENDENT, 11 MAY 1988

## Robin Cook finds the transitional arrangements mean and muddled

The Government's discomfiture over housing benefit was entirely foreseeable. It was, in fact, foreseen as far back as 1985 by virtually every organisation that responded to the bogus consultation over the changes when Norman Fowler first unveiled them. If ministers have experienced humiliation it has been a fitting penalty for their arrogance in assuming they knew better.

Arrogance has since yielded to panic: well-founded panic, as ministers had failed to prepare contingency plans against difficulties. It is now clear that when John Moore announced new transitional arrangements to cushion the blow, he had no scheme tucked away in his back pocket. As a result, there has since been much vamping by ministers. From their various briefings it is possible to tease out the two principal characteristics of the amended scheme. It is mean and it is muddled.

Let us begin with the meanness. The popular misconception is that the scheme offers transitional protection to anyone who is paying more than £2.50 a week after the changes. The public should be forgiven the mistake, as it is clearly the perception ministers intended to create. Reality is at variance with perception. On top of the standard loss of £2.50, the scheme does not cover the new exclusion from benefit of 20 per cent of rates (about another £2) and does not take into account this year's rise in rents and rates

(anything from £1 to £4). In sum, no tenant is likely to get protection unless his or her weekly charge has increased by more than £6 or £7. These are large sums to write off if you are living on a tight budget of £50 or £60 a week.

Consider those tenants who believe they have gained from the increase in the new capital cut-off from £6,000 to £8,000. They will eventually discover that their housing benefit is still reduced by the new notional interest which they are assumed to receive from their savings. This currently stands at a pound a week for every £250 by which their capital exceeds £3,000 — an annual rate of interest of 21 per cent.

A couple in Kettering wrote to me last month after they lost their entire £17 a week housing benefit because they had savings of £7,200. In theory, this is precisely the household which should gain from the raising of the ceiling to £8,000. In reality, they still lose £16 a week in notional interest on top of the standard loss of £2.50. As a result, the Government concessions will not leave them a penny better off when the transitional protection runs out.

Then there are many families with children which have lost out in the changeover, a particularly interesting group as ministers have repeatedly told us that the purpose of the changes in benefit was to target

extra help on such cases. Let us therefore examine how this purpose is revealed in the case of Mr and Mrs Brown of Cumbria, who are working hard to raise four children on a low wage of £82 net a week.

Mr and Mrs Brown lost £18.75 a week in housing benefit, but the transitional protection scheme offsets this loss by the smaller amount they gained in the increase in family credit. As a result, Mr and Mrs Brown will qualify for only limited transitional protection, which will leave them with an immediate loss in housing benefit of £12 and a net loss from all the changes of £10.

The cases so far have at least qualified in principle for the new concessions. Single people who are not pensioners and who have no children need not apply. This includes tenants under 25, who have experienced some of the largest losses as a result of the invention of a new junior rate of benefit. I know of a young, single chef who earns £61 net for working four days a week for the NHS. He has lost £24 a week in housing benefit, but will not qualify for transitional protection.

Enough of the meanness. Let us turn to the muddle. This, believe it if you can, is the working arrangement which ministers scabbled together in panic.

Sometime in the next couple of months, press adverts will invite claimants to cut out a cou-

pon and send it in to the new DHSS central unit. The central unit will then post on the coupon with a pro-forma to the local authority for certification.

This part of the chain is tricky as it requires the local authority to retrieve and compare two different sets of data — the claimant's current housing benefit and the claimant's past housing benefit. Many local authorities have already shut down the software programme containing past housing benefit claims and can now only access that data at considerable expense of computer and operator time.

If and when the local authority can complete the pro forma, it is returned to the central unit, which then assesses entitlement. This may require further information, for instance on family credit, from other DHSS units in distant parts of Britain. Only then will the central unit be able to start mailing refunds.

The structure requires every claimant to make two applications to two separate authorities for two part-payments of the same benefit. Private tenants will simultaneously receive two cheques a month, one from the local authority and one from the DHSS to club together as their housing benefit payment. At this stage, it would be unkind to quote the many government assurances that their objective was to devise a simpler system of welfare benefits.

The onus is on the claimant

to start the process in motion, which raises serious questions about the likely take-up rate among those who really qualify. Conversely, thousands of losers who do not qualify are likely to submit an application in all good faith. If only a tenth of housing benefit losers make an application, the central unit will receive half a million coupons. It is anyone's guess how many months it will take them to process such a deluge.

In the meantime, tenants will be faced with weekly rent demands based on the current housing benefit rules. DHSS officials are briefing the press that they expect local authorities — and private landlords — to be patient over the arrears of tenants awaiting a refund, but no tenant can know whether he or she will qualify for a refund, nor the amount, until it arrives. Payment several months in arrears is a meaningful concept only in the world of extended credit inhabited by ministers: it is wholly foreign to the poor who juggle to balance the books every week.

The need for this Heath Robinson improvisation would not have arisen had ministers bothered to listen three years ago to the organisations which patiently understood the problem far better than ministers. The Treasury could even have saved itself the administrative costs of the refund scheme — an estimated £28 m to handle payments of £70 m.

Robin Cook is Shadow Cabinet Spokesman on Social Services.

## of the future

that Swiss companies make themselves impregnable to takeover through holding restrictions. But there are British companies — such as Great Universal and Reuters — which equally cannot be taken over because of curious share structures. The test for British government action whether the Swiss government, not just individual Swiss companies, maintains barriers to British takeovers.

Within the confines of a single European market, such reciprocity issues should be avoided. And British businesses will have to learn that, if a bidder is from another EC country, the question of ownership should not in theory arise. For many this may seem frightening, certainly be hard to justify politically, and certainly be hard to justify politically. The ultimate aim of a single market in Europe is that the national flag carriers should be seen as European as well as national flag carriers.

Lord Young and his advisers are focusing on competition, particularly in a European context. With the lack of foresight, the DTI's March 1987 report on merger policy largely failed to address the competition issues raised by the invention of the single market. Recent reports by both Lord Young and John Gummer, the Agriculture Minister, suggest the Government is now rapidly widening its horizons. While retaining an open door to inward investment, the Government should at the same time ensure that British firms are not disadvantaged by a liberalised policy.

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SECRET



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

11 May 1988

HOUSING

Following the discussion in E(LF) on 3 May (E(LF)(88) 5th Meeting), the Prime Minister held a discussion on housing policy with a small group of Ministers on the evening of 9 May. There were present the Secretary of State for Wales, the Secretary of State for the Environment, the Secretary of State for Scotland, the Secretary of State for Social Services, the Chief Secretary, the Minister for Housing and Planning, Mr. Richard Wilson (Cabinet Office) and Mr. Peter Stredder (No. 10 Policy Unit).

I would be grateful if you and other copy recipients would make sure that the circulation of this letter is strictly limited to those who need to see it for the purposes of follow-up action.

The group began by considering the proposals for a scheme of flexi-ownership, put forward by the Secretary of State for Wales. In discussion the following main points were made.

- (a) Subject to more detailed study, the scheme seemed to have major policy attractions.
- (b) It would be important to ensure that flexi-ownership did not undermine the Right to Buy. But there were clear differences between the schemes. For instance, a person who opted for flexi-ownership would not receive the full Right-to-Buy discount: it could be 5 or perhaps 10 per cent less. And, whereas under the Right-to-Buy scheme the householder received the full benefit of increases in the value of a house as house prices rose, under flexi-ownership householders would receive only part of the increase depending on the size of their equity stake.



- (c) If take-up under the scheme led to a significant reduction in the size of the public sector housing stock, there could be pressure to embark on substantial new public sector housebuilding for tenants who were heavily dependent on housing benefit. It was noted that a significant proportion of new building by housing associations fell into this category.
- (d) The flexi-ownership scheme assumed that the householder would be responsible for repairs and maintenance, but there was a risk that some people would not be able to afford them. On the other hand, there were many ways which people might find to look after their houses, once they had the incentive and freedom of ownership, whether through a further charge on their equity interest or by other means such as friends, relatives and do-it-yourself, particularly since much of the cost of repairs consisted of labour.
- (e) There was also the problem of people who could afford to carry out repairs and maintenance but simply could not be bothered to do so, preferring to enjoy the benefits of not paying rent. It might be possible to give the Housing Corporation power to make a retention (like a building society) on property which needed repair or else a power to enter property which was in bad repair and bring it up to a minimum standard, setting the cost against the flexi-owner's equity interest. On the other hand, it was essential not to allow flexi-ownership to become an opportunity for bureaucracy and new inspectorates. Flexi-owners should be treated just like any other householder, not singled out for special treatment.

Summing up this part of the discussion the Prime Minister said that flexi-ownership was an attractive possibility which the group wished to pursue further. Officials should urgently work up the proposals, including a financial assessment, for another meeting in two weeks' time.

The group then considered the proposals for a new financial regime for local authority housing and rents which the Secretary of State for the Environment had summarised in his minute of 6 May. Summing up this part of the discussion, the Prime Minister said that although they accepted that housing accounts should be ring-fenced as the Secretary of State had proposed, the group still had misgivings about the proposed further powers. The Group invited the Secretary of State for the Environment to prepare a paper examining an alternative approach.

Finally, there was a brief discussion of your Secretary of State's proposals on the landlords' code in which it was suggested that an alternative approach might be to transfer the relevant responsibilities of public sector landlords to

SECRET

- 3 -

private sector landlords by contract rather than by some more formal statutory mechanism. The Prime Minister would be grateful if your Secretary of State would consider the issues further in consultation with the other Secretaries of State concerned in the light of the discussion and see whether a solution can be found.

I am copying this letter to the Private Secretaries of the Ministers at the meeting and to the others present.

PAUL GRAY

Roger Bright, Esq.,  
Department of the Environment.



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Minister of State for Social Security and the Disabled

CHIEF SECRETARY	
REC.	12 MAY 1988
ACTION	Mr McIntyre
ES	Mr Sir P. Middleton
	Mr Anson, Mr Phillips
	Mr Hewitt - Miss
	Mr Turnbull Mr Ramsden

Mr Call.

11 May 1988

John Major Esq MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

*Dear Chief Secretary*

HOUSING BENEFIT TRANSITIONAL PAYMENTS: TAKING AMOUNT OF THE MINIMUM CONTRIBUTION TO DOMESTIC RATES

Since the announcement of the general framework of the package agreed to compensate people for sharp losses in housing benefit officials have been working hard on the details. One of the more obscure points in this generally complex picture has been how to calculate cash protection for people who were paying 20 per cent of their domestic rates or more before 1 April 1988. This has raised an issue which needs to be urgently resolved between us.

The starting point is quite clear. Transitional protection is not meant to cover the requirement to make a minimum payment of 20 per cent of domestic rates. Householders not on supplementary benefit/income support but also at similar income levels could before 31 March 1988 be in receipt of 100 per cent or near 100 per cent rate rebates. The cash comparison with rate rebates after 1 April, when all rebates are at a maximum of 80 per cent must be adjusted to take this into account. Hence the indication in my minute to the Prime Minister of 3 May that losses will be nearer £4 per week before transitional payments are made.

Under the old scheme however the normal starting point for calculating rate rebates for the above supplementary benefit/income support levels was 60 per cent of actual domestic rates. This was reduced by the taper as income increased. Since 1 April the calculation is 80 per cent of actual rates again reduced by the taper as income increases. In these cases any compensation arising cannot dilute the commitment for everyone to pay at least

E.R.

20 per cent of their rates. The reasons for a cash reduction in benefit in most cases will not reflect the change in the starting point for calculating rate rebates but changes in the capital rules, the personal allowances, local schemes and so on. There is therefore no justification for deducting more than the minimum loss of £2.50 in these cases. This is therefore the approach I now propose to adopt and is an important point to be made in rebuttal of Robin Cook's article in the Independent today.

I understand from officials that our revised approach to this is being questioned. We have certainly introduced some confusion by the way we described the effects of the calculation in my minute to the Prime Minister and by making an additional deduction for 20 per cent of domestic rates in all cases in the last estimates of the costs. I am satisfied however that this was a genuinely mistaken assessment when events were moving at great speed. Putting up the minimum loss to £4 in cases where this is not required to ensure the minimum contribution to domestic rates goes beyond our public position and will play into the hands of the Opposition. Since our estimates show that by limiting the adjustment to those who were previously receiving more than 80 per cent rate rebates we will still be within the £100 million agreed total, I hope you can agree quickly that this is the only sensible way to proceed

This letter, of course,  
is crystal clear!

Yours Sincerely  
Nicholas Scott

pp NICHOLAS SCOTT

approved by the Minister  
and signed in his absence.

mpw



FROM: MISS M P WALLACE

DATE: 12 May 1988

PS/CHIEF SECRETARY

**HOUSING BENEFIT: TRANSITIONAL SCHEME**

The Chancellor has seen Mr McIntyre's minute of 11 May. He thinks the <sup>DHSS scheme</sup> sounds extremely muddled, and there are a number of questions we must ask:

- (i) how many times do DHSS suggest we should compensate for the 20 per cent minimum contribution? At least the original addition to IS was flat-rate, but do they now propose to compensate for actual amounts, and with or without netting off the £1.30 already in the personal allowances?
- (ii) 20 per cent of this year's rates or last year's?
- (iii) how could this interpretation be squared with the wording of Mr Scott's Written Answer, and even if it could, would it undermine Mr Cook's accusation of muddle? (The Opposition will just move on to their next complaint if they see that it works.)
- (iv) how could we justify making a distinction between the transitional protection for those who were paying some rates last year and those who were not?
- (v) finally, how confident are we that this really can be included in the original £100 million?

mpw

MOIRA WALLACE



MP  
I will  
think this  
MS.

My Mr Sully's letter, now  
here, not v. illuminating,  
but Mr Portes' annex  
flagged is v. helpful.

Still not at all  
convincing that this is  
going to take any of the  
string out of Mr Cook's  
arguments. The calculation  
becomes more complex, too.  
And the costings still  
look v. doubtful.

MPW

FROM: J P MCINTYRE  
DATE: 12 May 1988

CHIEF SECRETARY

cc Chancellor  
Mr Anson  
Mr Phillips  
Mr Turnbull  
Miss Peirson  
Mr Potter  
Mr Ramsden  
Mr Call

HOUSING BENEFIT: TRANSITIONAL SCHEME

Mr Scott's letter of 11 May seeks your urgent agreement not to deduct the 20 per cent minimum contribution to rates from transitional payments and to make deductions only where they are necessary to ensure that claimants pay not less than 20 per cent.

2. Mr Scott acknowledges "a genuinely mistaken assessment" in the proposals put to the PM in his minute of 3 May and in the costings of the package, which both assumed that 20 per cent of rates would be deducted from all transitional payments. DHSS are now resting principally on the arguments that:

- a. Putting up the minimum loss from £2.50 to nearer £4 will play into the Opposition's hands and sustain the public argument;
- b. They have the money within the agreed £100 million package.

Opposition Pressure

3. It is true that the deduction of the 20 per cent minimum contribution was the first point made in Robin Cook's article in The Independent yesterday. But he also pointed out that there would be no help for rent and rate increases this year; criticised the implied interest rate on capital between £3,000 and £8,000;

and drew attention to the fact that people below pension age without children would not qualify. It is possible that conceding on the 20 per cent minimum contribution would be enough to take the sting out of further criticism of the package but by no means certain.

### Costs

4. The latest DHSS costings are:

	<u>£ million</u>
increase in capital limit to £8,000	35
ending of discretionary LA schemes	40
losses over £2.50 for specified groups arising from changes in main HB scheme	<u>15</u>
	<u>90</u>

They claim that this leaves £10 million, within the £100 million total agreed to pay for not deducting the 20 per cent contribution to rates.

5. DHSS say that not deducting the 20 per cent contribution would bring an additional 75,000 people within the transitional scheme, with an average entitlement of 80p per week. Existing (120,000) beneficiaries of the scheme would see their average entitlements rise by an average of £1.20 per week. All this comes to an extra cost of £10½ million. DHSS say £10 million is a reasonable rounded estimate, given the uncertainties (though there may of course be extra administrative costs as well.)

6. I should emphasise that DHSS themselves make no great claims for these costings. There is considerable uncertainty,



particularly about the extent of the losses arising from the LA schemes. The information we have received from DHSS today suggests, contrary to what we were led to believe earlier, that £40 million is at least as likely to be an underestimate as an overestimate. Take-up, especially of relatively small entitlements, is another uncertain factor. The fact is that we can have no great confidence that the DHSS model is correctly forecasting the size of average losses or the number of people likely to be entitled under the scheme. The only thing we can be sure of is that Mr Scott's proposal will increase the risk that the £100 million limit will be breached.

7. There are some straws in the wind that HB losses are turning out higher than DHSS expected. Mr Cook has quoted examples of several Scottish authorities where expenditure so far is said to be 15-30 per cent down on last year. (DHSS are unable to confirm these figures.) And DHSS' own internal forecasting system is beginning to point to reductions in HB spend compared with PEWP projections. All this would tend to underline the risk that £100 million may not be enough. On the other hand, extra spending on the transitional scheme would to some extent be merely offsetting a decline in projected expenditure on the main HB scheme.

#### Difference between Treasury and DHSS Positions

8. You may find it helpful to look at the attached annexes by Mr Portes which bring out the effect of what DHSS propose. Annex A shows the calculation of a lone parent's HB entitlement under the new and old schemes, and the amounts of compensation payable under the existing package and the new DHSS proposals. (DHSS agree these figures). Annex B sets out how a transitional payment will be calculated, with and without the 20 per cent deduction.

#### Conclusions

9. DHSS have still not convinced us of the merits of their case. And it is far from certain that their proposals can be fitted into the £100 million envelope, though on their latest costings they could be absorbed. Whereas previously we had a £10 million

cushion within the £100 million total to allow for uncertainty, Mr Scott's proposal would use this up. A great deal therefore turns on how much this concession is required in political terms, and on whether it would take the sting out of opposition to the reforms or merely whet the appetite of the government's critics for more concessions.

J P

J P MCINTYRE

Example

ANNEX A

Lone parent, one child under 11, with income of £70, paying average rent of £17.10 and average rates of £7.20. (For simplicity I assume no change between 1987-88 and 1988-89).

Old Scheme

Income £70.00  
CB £7.25  
OPB £4.70  
-----  
Total £81.95

New scheme

Income £70.00  
CB £7.25  
OPB £4.90  
-----  
Total £82.15

Needs allowance £86.90

Applicable amount £58.90

Income is below needs allowance  
by £4.95

Income is above applicable  
amount by £23.25

60% of rent is £10.26  
60% of rates is £4.32

100% of rent is £17.10  
\* 80% of rates is £5.76

Applying 25% reverse rent taper to  
£4.95 gives £1.24

Applying 65% rent taper to  
£23.25 gives £15.11

Applying 8% reverse rates taper to  
£4.95 gives £0.40

Applying 20% rates taper to  
£23.25 gives £4.65

Total rate rebate is £4.72, so  
claimant pays 34% rates.

Total rate rebate is £1.11,  
so claimant pays 85% rates

Total HB is £16.22

Total HB is £3.10

She loses £13.12. DHSS say: she was already paying over 20 per cent rates. Therefore she should not have to make any further contribution to rates, and her transitional protection should be: £13.12 - £2.50 = £10.62. Her disposable income would have been reduced by £2.50 - £0.20 (the OPB increase) = £2.30. We say: She has gone from paying 34% of rates to paying 85%. 20% of that is due to \* above, i.e. the 20% minimum contribution. She should therefore have 20% of her rates deducted from her protection, which would then be £13.11 - £2.50 - £1.42 = £9.20. Her drop in disposable income would then be: £2.50 + £1.42 - £0.20 = £3.92

## ANNEX B

DHSS say compensation should be calculated as follows:

Calculate (i)      Old rent rebate  
                      +Old rate rebate  
                      +Housing Benefit Supplement  
                      +Family Income Supplement (including school meals)  
                      -----  
                      = Old benefit

(ii)      New rent rebate  
                      New rate rebate  
                      Family Credit  
                      -----  
                      = New benefit

(iii) £2.50

\* +difference between old rate rebate and 80% of old rates if old rate rebate was greater than 80%.

----- (but if rebate was less than 80%, no deduction at all)  
= Deductions

Transitional Protection = Old benefit - New Benefit - Deductions

Then, since the claimant will be receiving the 'New benefit' anyway, the claimant's loss of benefit is simply 'Deductions'.

We agree with this method of calculation, except for \*. We believe this should be "20% of <sup>1</sup>new rates".

<sup>1</sup> New rates rather than old rates because the relevant decision was that from 1 April 1988 the starting point for the calculation of rate rebates should be 80 rather than 100 per cent of 1988-89 rates.

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HP BF 19/5

FROM: H PHILLIPS

DATE: 12 May 1988

CHIEF SECRETARY

cc PS/Chancellor

- Mr Anson
- Mr Hawtin
- Miss Peirson
- Mr Turnbull
- Mr McIntyre
- Mr S Wood
- Mr Ramsden
- Mr Betenson
- Mrs Holmans
- Mr Cropper
- Ms G Haskins
- Mr Tyrie
- Mr Call

**HOUSING: OFFICIAL GROUP**

In the light of our discussion last Monday, and of Miss Rutter's note of 11 May, I have sent the attached letter to the Cabinet Office registering a number of points on the flexiownership proposal., I hope these cover most of the ground we have already discussed.

2. The next meeting of the official group is on Tuesday 17 May. You may want to talk to our representatives before then, if you can, but in any event I think we should discuss where the proposal has got to in the light of that meeting and how, if necessary, we strengthen our input further.

HP:

HAYDEN PHILLIPS

CONFIDENTIAL



H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-270 3000  
Direct Dialling 01-270 4390

Hayden Phillips  
Deputy Secretary

12 May 1988

R T J Wilson Esq  
Cabinet Office  
70 Whitehall  
LONDON SW1

A handwritten signature in dark ink, appearing to read "Peter Richardson".

**FLEXIOWNERSHIP**

I understand that you suggested at the meeting on Tuesday that departments should let you have a list of the points that they consider should be covered in the paper you are preparing on Flexiownership. I have therefore compiled such a list, principally in the form of questions which we judge will need to be persuasively answered. This is in addition of course to the financial appraisal and the year by year cash flow analysis.

First, by how much will Flexiownership reduce the supply of social rented housing without a corresponding reduction in demand? If that supply of social rented housing is not replaced, the demand would have to be met within either the private rented or the owner-occupied sectors. The paper needs to address the question of whether or not we think it is possible for that demand to be met without additional public expenditure either on houses or on the housing costs of individuals. We know that an expansion of the private rented sector involves an increase in the cost of housing benefit, so in order to avoid additional public expenditure on housing, we would have to expect the owner-occupied market to absorb demand formally met by social rented housing. Is this really plausible?

Second, by how much will this proposal displace the existing Right to Buy scheme? Any displacement will have significant effects upon local authority receipts, and hence future local authority PES requirements. I presume we do not wish to entice people away from full homeownership under Right to Buy if they could afford it. And there are the related implications for local authority housing revenue accounts, and of course levels of subsidy.

Third, if the target groups - those tenants receiving some housing benefit - do turn out to be the groups to take up Flexiownership,

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will not the ability of the flexiowner to keep the property in a good state of repair be seriously in doubt? It is important to consider whether or not we would be encouraging tenants to take on a financial responsibility that we know they may be unable to bear, and that we know could lead to the long term deterioration of the housing stock. Yet there is a risk on the other hand that those taking up Flexiownership with a sufficient "endowment" of equity would take advantage of this to require the Housing Corporation in effect to finance the repair of their houses, leading to an unplanned growth in public expenditure on repairs.

Fourth, Ministers, in considering a decision, will wish to be satisfied that they can present this proposal as fair. What do they say to those who are struggling with a mortgage in the private sector (having possibly been denied a council house), or to those struggling with a mortgage taken out under Right to Buy. This could be particularly difficult if flexiowners are able to fund major repairs to the house, as those exercising Right to Buy in the he past have not been able to "sell" some of their discount entitlement to finance repairs. While this is very much a matter of political judgement what can we say about the type of people affected and their numbers.

Two observations rather than questions. Flexiownership does not seem to me to offer tenants an entry into the conventional owner-occupied housing market. It is unlikely that many flexiowners will be able to afford to purchase all the equity outstanding on the house, since this would require a similar outlay to that required under conventional Right to Buy - an option that the flexiowner will probably have rejected for being too expensive.

We also need to address the administrative implications for local authorities and the Housing Corporation insofar as they are different from the expenditure implications. Record-keeping, forecasting, processing of transfers of houses between these bodies and of sales of equity by the ex-tenant to the Corporation to finance repairs could all be significant, depending on take-up etc.

I think these are the main points I wanted to register as of principal concern to the Treasury. But I would also be interested to see what we say to Ministers about the impact of the proposal on areas of low house prices and about how we judge it would affect the transfer of housing stock to the private sector.

I am copying this letter to Peter Owen and Robin Young (DOE), Peter Stredder (No.10 Policy Unit), Adam Peat (Welsh Office), Harold Mills (Scottish Office) and Mike Whippman (DHSS), and to Steven Wood and Mark Betenson here.

*Paul ever*  
*Hayd*

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CHIEF SECRETARY

~~Handwritten signature~~

M BF 19/5

FROM: A G TYRIE

DATE: 12 MAY 1988

cc Chancellor  
 Mr Anson  
 Mr H Phillips  
 Mr Hawtin  
 Ms Peirson  
 Mr Turnbull  
 Mr McIntyre  
 Mr Ramsden  
 Mr Betenson  
 Mrs Holmans  
 Ms Haskins  
 Mr Cropper  
 Mr Call

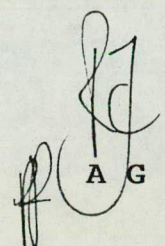
**RIGHT TO BUY: FLEXI-OWNERSHIP**

I have read Gina Haskins' note of 6 May and also Jill Rutter's note of 11 May.

Clearly we need to know far more about the possible Exchequer costs, and the attractiveness to tenants, of this proposal. I have a couple of points in addition to those raised in Jill's note.

First, if it transpired that flexi-ownership was a runner, both for the Treasury and tenants, might it be worth considering restricting the new provisions to local authority flats? Local authority houses are already selling well; it is the flat stock which is causing the problems.

Secondly, I think we need to consider very carefully whether we want to offer this scheme to people entirely dependent on State benefits. Even if Treasury Housing Benefit concerns were allayed what would this proposal do to the condition of the housing stock in the long run?

  
 A G TYRIE





*ryg*

**DEPARTMENT OF HEALTH AND SOCIAL SECURITY**  
 Richmond House, 79 Whitehall, London SW1A 2NS  
 Telephone 01-210 3000

*From the Minister of State for Social Security and the Disabled*

CHIEF SECRETARY	
REC.	13 MAY 1988
SECTION	<i>MA McIntyre</i>
DIVISION	<i>CX Mr Anson</i>
	<i>Mr H Phillips</i>
	<i>Miss Pearson</i>
	<i>Mr Turnbull Mr Potter</i>

*Mr Ramsden Mr Call*

*!*

Rt Hon Major Esq MP  
 Chief Secretary to the Treasury  
 HM Treasury  
 Parliament Street  
 LONDON SW1P 3AG

13 May 1988

*Dear John,*

**HOUSING BENEFIT TRANSITIONAL PAYMENTS: TAKING ACCOUNT OF THE MINIMUM CONTRIBUTION TO RATES**

Following our conversation yesterday evening, this is the written assurance you requested that if as a result of our agreed approach to the issue of the minimum contribution to rates, the cost of the housing benefit package exceeded £100, then we would not seek to meet this by a further call on the Reserve.

I should add that my firm expectation is that the costs of the scheme will not exceed £100 million, as our estimates have been based on 100 per cent take up. We shall be relying of course upon individuals to make claims to the special unit, so take up is unlikely to reach that level.

*I am grateful to you for your helpful understanding of the political implications of all this.*

*Nick*

NICHOLAS SCOTT

CONFIDENTIAL

~~BF 19/5~~  
MP

FROM: S N WOOD  
DATE: 13 May 1988

CHIEF SECRETARY

cc **Chancellor**  
**Mr Anson**  
**Mr H Phillips o/r**  
**Mr Hawtin**  
**Miss Peirson**  
**Mr Turnbull**  
**Mr McIntyre**  
**Mr Potter**  
**Mr Ramsden**  
**Mr Betenson o/r**  
**Mrs Holmans**  
**Miss Haskins**  
**Mr Cropper**  
**Mr Tyrie**  
**Mr Call**

**RIGHT TO BUY: FLEXI-OWNERSHIP**

Mr Phillips' submission to you yesterday explained the issues which we have asked the Cabinet Office to address in the draft paper officials will discuss on Tuesday, when we will also discuss a financial appraisal being worked up by DOE in consultation with ourselves and others.

2. Departments have not taken positions so far, only identified questions to be addressed. But you may like to see the attached letter DOE officials have put in, setting out their list of the areas where flexi-ownership could affect existing housing policies. There is some interesting material in this, in particular:-

(i) the present proposal would not be attractive for flat-dwellers, because they would become liable to contribute to upkeep of common parts. But incentives to flat-dwellers to take up flexi-ownership could be expensive (paragraph 3(i) of the letter);

(ii) the existence of rights to flexi-ownership could deter new landlords from taking on local authority estates in response to "tenants' choice" or local

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authority disposals. Similarly if housing association tenants were given the right to flexi-ownership, this would deter private investors from entering mixed funding schemes; and

(iii) the effects on local authority capital spending power need to be considered. At first sight, the rich shire district councils would lose spending power from any displacement of Right to Buy.

3. We will keep you in touch. Mr Phillips is away on Monday, but if you wanted to discuss before officials meet on Tuesday Miss Haskins and I are at your disposal.

Sw.

S N WOOD



CONFIDENTIAL

**Department of the Environment**

Room

2 Marsham Street London SW1P 3EB

Telex 22221

Telephone Direct Line 01-212

Switchboard 01-212 3434

GTN 212

R T J Wilson Esq  
Cabinet Office  
Whitehall  
London SW1

12 May 1988

*Dear Richard,*

**HOUSING POLICY: FLEXI-OWNERSHIP**

1. Thank you for your letter of 11 May to Peter Owen, on whose behalf I am replying today to meet your deadline since he is away.

2. You wanted, I think, a check-list of housing policies, announced and proposed, which would be affected if Ministers decide to go down the flexi-ownership route. What follows is meant to be just that, and not, I should stress, arguments either for or against the scheme. We discussed a number of aspects at yesterday's meeting about the financial appraisal, and as far as possible I have not repeated here points made at that meeting.

Right to Buy

3. We discussed the implications for receipts in the context of the financial appraisal and we are all now working on agreed assumptions. There are two points I think which need flagging up still:

(i) Flats: we are all agreed that the scheme of flexi-ownership on the table is not obviously suitable for flats because a tenant become liable to contribute via service charges to the costs of repairs and maintenance to the common parts. We agreed how to get round that for the purposes of financial appraisal, but the policy issue remains. If we cannot find a means of extending the scheme to flat-dwellers, in England at any rate that mean that flexi-ownership could not happen significantly in many parts of the country, notably in London. If therefore, as I should expect, Ministers would want us to extend the scheme to flat-dwellers, we shall need to come up with, and cost, ideas quickly. They might prove expensive if, for example, they involved payment of housing benefit in respect of service charges to people who had flexi-purchased their flats, or if the proposal was for the Housing Corporation to buy back equity to finance the tenant's contributions

to works to the common parts. In either case the scheme could then be very attractive to tenants in flats, but rather expensive for the Exchequer.

(ii) Housing associations: you and Peter Stredder thought yesterday that Ministers would prefer not to give housing association tenants rights to flexi-ownership contrary to what Mr Walker has proposed. That is fine, but we will need to work up some sort of public justification for that new distinction: tenants of non-charitable housing associations have the right to buy at present, and will keep it; why should they not get the advantage of this extension to the right to buy as well? I can see a political answer to that question, but I am not sure how it will stand up to the public pronouncements of Ministers so far in the right to buy context.

#### Repair and Maintenance of Stock

4. Again, we are making agreed assumptions about weekly expenditure by flexi-owning ex-tenants on repair and maintenance. We clearly need to flag up the potential risk that some people taking up the scheme will not spend as much, either because they do not want to or because they cannot afford to, and there will be increasing pressure for the Government to help either, as we discussed yesterday, with an increased allocation to the Housing Corporation for repair work or, I suppose, through more generous improvement grants to flexi-owners. Whatever we assume for illustrative purposes now, when and if there is evidence that the state of flexi-owned stock is deteriorating, the Government will come under increasing pressure.

#### Future Provision of Public Rented Housing

5. I do not suppose we can put figures on it, but the effect of the scheme will be to reduce the amount of housing available for renting. As a rough rule of thumb we calculate that 250,000 new lettings in the social rented sector are needed each year, which in our plans will be met by a combination of re-lettings of LA and HA housing vacated by their previous tenants, new build, and, in our most recent policy innovation, by the re-letting to new tenants of properties whose tenants have been given cash payments by local authorities in order to buy elsewhere. Under the scheme, there would be a reduction in re-lettings, and unless we make that up by an increase in new-build there will be consequences for labour mobility and homelessness.

#### Tenants Choice

6. The tenants choice provisions in the current Housing Bill allow tenants to vote to leave the local authority sector and rent under a new landlord. As proposed existing tenants retain their right to buy after transfer to the new landlord, and we

agreed that the right to flexi-buy would also be retained. Flexi-ownership will alter the picture significantly: first, an immediate reduction in rent may well seem a much more attractive option than choosing a new landlord; and second, it seems highly unlikely that any new landlord would want, or could get private finance, to take on dwellings whose tenants have the right to flexi-ownership at any time in the future.

#### Rochfords: Disposal of Total LA Stocks

7. The policy which our Ministers here have hitherto been encouraging of supporting moves by local authorities voluntarily to dispose of their whole housing stocks to other landlords, including housing associations and perhaps private sector bodies, with their tenants' acquiescence again looks difficult to reconcile with flexi-ownership. Prospective new landlords are, we know, strongly opposed to the extension of the RTB strings attached to their new tenants after they have bought the property from local authorities, and there can be little doubt that prospective such landlords would find it much more difficult to raise private finance for purchase of local authority property once the scheme is in place.

#### Expansion of Housing Associations

8. Our existing policy is to make housing associations increasingly the main provider of such new provision for rent as our PESC programmes allow. We are committed to an expansion of the housing association movement in this way. And our announced policy, implemented in the current Bill, is to deregulate housing association rents thus enabling housing associations to finance more and more of their schemes by mixed funding, ie a mixture of Exchequer support and funds obtained on the market. We had been hoping that the regimes for local authority and housing association tenancies would draw closer together rather than further apart. With flexi-ownership for LA tenants, there might be difficulty in presenting the expansion of the housing association movement as an acceptable alternative to LA new build for rent when it is clearly going to be so much more advantageous to be an LA tenant with the right to flexi-purchase. But if then Ministers decided to give HA tenants the right to flexi-purchase, that would rule out, in our judgement, the prospect of mixed funding for HA capital projects, which we are relying upon in our PESC programme.

#### Ring-fenced HRA

9. The flexi-purchase arrangements would require an increase in subsidy to all local authorities, and it is very difficult to see how this would cross relate to the proposed new subsidy arrangements outlined in your letter. This difficulty was highlighted in our discussion of the costings.

We are relying on the ring fence to bring a new financial discipline to housing revenue accounts. With limited subsidy and no rate fund contributions, authorities would be forced to raise rents to pay for any inefficiency. But if (as seems likely) all, or almost all, the remaining council tenants are on 100% housing benefit at the margin, this discipline will have no effect, since any increase in rents will immediately be paid for out of housing benefit subsidy.

#### Local authority capital control

10. The flexi-purchase arrangements have the effect of preventing accretion of capital spending power among local authorities. While this is desirable in terms of targetting, it is achieved by the confiscation of the spending power of local authorities with stock values in excess of debt - the same rich shire district councils in the South East who have proved a political stumbling block in the context of other capital proposals.

11. I hope this sort of list is what you were after. If any of the points are not understood, we are happy to elaborate further.

12. I am copying this letter to Mike Whippman (DHSS), Adam Peat (Welsh Office), Harold Mills (Scottish Office), Peter Stredder (No 10 Policy Unit), Steven Wood and Mark Betenson (Treasury), and to Andrew Wells (Cabinet Office).

*Yours,  
Robin.*

R U YOUNG -

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FROM: JILL RUTTER

DATE: 13 May 1988

MR MCINTYRE

cc:  
Chancellor  
Mr Anson  
Mr H Phillips  
Miss Peirson  
Mr Turnbull  
Mr Potter  
Mr Ramsden  
Mr Call

**HOUSING BENEFIT: TRANSITIONAL SCHEME**

The Chief Secretary was grateful for your minutes of 11 May and 12 May commenting on Mr Scott's letter of 11 May.

2 The Chief Secretary spoke to both you and Mr Scott yesterday evening. The Chief Secretary expressed his considerable irritation to Mr Scott about the way in which the DHSS were repeatedly changing both costings and proposals. He nonetheless agreed with Mr Scott that he should proceed on the basis set out in Mr Scott's letter, largely because he believed that (a) discussions with the Prime Minister had been conducted largely on the basis set out by DHSS and (b) that running the scheme on this basis was necessary to minimise the large losses which was the intention of the transitional protection scheme agreed at No.10.

3 The Chief Secretary nonetheless expressed concern to Mr Scott about the implications of this change for keeping within the £100 million of the Housing Benefit package. He therefore asked Mr Scott to write today with an absolute assurance that he would keep within the £100 million ceiling, or failing that to make appropriate offsetting savings. Mr Scott will be writing shortly.

JILL RUTTER

Private Secretary



CONFIDENTIAL



FROM: JILL RUTTER

DATE: 16 May 1988

MR S N WOOD

*PRP*

cc:  
Chancellor  
Mr Anson  
Mr H Phillips  
Mr Hawtin  
Miss Peirson  
Mr Turnbull  
Mr McIntyre  
Mr Potter  
Mr Ramsden  
Mr Betenson  
Mrs Holman  
Miss Haskins  
Mr Cropper  
Mr Tyrie  
Mr Call

**RIGHT TO BUY: FLEXI-OWNERSHIP**

The Chief Secretary has seen your minute of 13 May and Mr Phillips' minute of 12 May.

2 The Chief Secretary has commented that DOE officials have produced an excellent list of difficulties with the proposals. He does not wish to have a meeting at this stage, but has commented that we do need a clear financial appraisal of the proposition for both Revenue and capital sides of the account.

JILL RUTTER

Private Secretary

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FROM: JILL RUTTER

DATE: 16 May 1988

Handwritten initials "JRP" in cursive.

MR TYRIE

cc:PS/Chancellor  
Mr Anson  
Mr H Phillips  
Mr Hawtin  
Ms Peirson  
Mr Turnbull  
Mr McIntyre  
Mr Ramsden  
Mr Betenson  
Mrs Holmans  
Ms Haskins  
Mr S N Wood  
Mr Cropper  
Mr Call

**RIGHT TO BUY: FLEXI-OWNERSHIP**

The Chief Secretary has seen your minute of 12 May.

2 The Chief Secretary entirely agrees with your second point. ~~the~~ the first the Chief Secretary thinks that flexi-ownership will be difficult apply to flats and that detailed examination will throw up a lot flaws. The Chief Secretary is generally very suspicious of this idea - but has commented that it must be examined carefully.

Handwritten signature of Jill Rutter in cursive.

JILL RUTTER

Private Secretary

*ppsp*FROM: J P MCINTYRE  
DATE: 17 May 1988

CHIEF SECRETARY

*1. Alex  
2. Tony*cc **Chancellor**  
Mr Anson  
Mr Phillips  
Miss Peirson  
Mr Turnbull  
Mr Ramsden  
Mr Call**HOUSING BENEFIT PACKAGE**

We spoke yesterday about Mr Scott's letter of 13 May which did not give you the assurance, in the terms you had agreed with him, on the consequences of the cost of the package exceeding the agreed £100 million.

2. Mr Scott says in his letter that, if as a result of the agreed approach on the minimum contribution to rates, the cost of the package exceeds £100 million, then DHSS would not seek to meet this by a further call on the Reserve.

3. When you saw Mr Scott on 12 May and agreed that the 20 per cent rates contributions need not be deducted from the transitional payments for those who had already been paying at least 20 per cent, you asked him to give an assurance that he would keep within the £100 million ceiling, or failing that to make appropriate offsetting savings (Miss Rutter's minute of 13 May).

4. As I explained yesterday, one reason why Mr Scott has given the assurance in rather different terms is that the Department thinks that there is a chance that outturn on the programme as a whole this year will prove to be lower than the provision in PEWP. Their latest internal forecast suggests an outturn around £200 million lower. Our own view is that there is insufficient evidence for reaching a conclusion of this kind, given that we

have no data yet on the impact of the reforms. Even allowing for some deceleration in the underlying growth of benefit expenditure, an outturn a little higher than PEWP is more likely than an underspend. In any event, you said that you did not intend Mr Scott to be able to pray in aid estimating savings to meet any overrun on the transitional scheme.

5. I have to say that I can see little realistic prospect of forcing DHSS to make in-year savings via policy changes (and savings on administration would also be very difficult). But you saw advantage yesterday in making Mr Scott confirm the terms of his agreement, even if in practice we might not be able to make him deliver.

6. I therefore attach a draft letter to Mr Scott confirming that you would expect him to find an offsetting saving if the cost of the package looks like exceeding £100 million. To this end, we would need to make a fresh projection of the cost of the package by, say, September so that any offsetting measures would be in time.

7. The draft letter also reminds DHSS that they owe us an assessment of the likely administration costs of the transitional scheme, which we have been pressing for at official level.

JM

J P MCINTYRE

**DRAFT LETTER TO:**

Nicholas Scott Esq MP  
Minister of state for Social Security and the disabled  
DHSS  
Richmond House  
79 Whitehall  
LONDON SW1A 2NS

**HOUSING BENEFIT PACKAGE**

Thank you for your letter of 13 May.

I am afraid that your assurance about the cost of the scheme is not quite in the terms we agreed on 12 May. Our agreement was that, in the event that the cost of the package looks like exceeding £100 million, you would make offsetting savings elsewhere in the social security programme. I accept that this might be difficult for you in-year, when benefit rates and entitlement criteria have been fixed. But I do not think it would be right for us to rely on estimating savings elsewhere in the programme (if, indeed there are any) in order to offset an overshoot on the housing benefit package.

When you have had some experience of claims under the new scheme, I would like our officials to advise us on whether it is likely that the cost will come out within the £100 million total or if some offsetting measures are called for. Perhaps they could report to us by early September.

We will also need to consider the administration costs of the transitional scheme at an early stage, and I hope your

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officials will be able to let mine have their latest assessment very soon. As you know, I was extremely concerned at the prospect that administration might cost as much as £25-30 million, and we need to reach agreement on this as soon as possible.

JOHN MAJOR

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~~For CST history folder~~

1. MR WOOD ✓ I agree.  
2. CHIEF SECRETARY

Sw 23/5.

FROM: M C BETENSON

Date: 23 May 1988 *pyg*

cc: **Chancellor**  
 Financial Secretary  
 Paymaster General  
 Economic Secretary  
 Sir Peter Middleton  
 Mr Anson  
 Mr Phillips  
 Mr Edwards o/a  
 Miss Peirson  
 Mr Turnbull  
 Mr McIntyre  
 Mrs Holmans  
 Mr Ramsden  
 Miss Haskins o/r  
 Mr Cropper  
 Mr Tyrie  
 Mr Call

*Ch/You will want to see this  
 and I think CST would  
 find it helpful to have  
 your reactions*

*Ch  
 A lot of money @ stake.  
 A case for getting you added to  
 PM's group, but on balance perhaps best not.*

mjon 24/5

LOCAL AUTHORITY HOUSING

*AA*

The Prime Minister is holding a second Housing Policy meeting on Thursday 26 May and I attach copies of two papers which will be considered at the meeting. The first paper has been prepared by an interdepartmental official group chaired by the Cabinet Office; it works up Mr Walker's flexi-ownership proposal and attempts a financial appraisal of its impact. The second paper (at present still in draft) is Mr Ridley's response to criticism of his proposals for a revised financial regime for local housing authorities. The paper floats options which ring-fence Housing Revenue Accounts (HRAs), and which use revenue surpluses to offset Housing Benefit costs.

2. I attach speaking notes on both papers. But the merits of the proposals and the line you might take are discussed in turn below.

## FLEXI-OWNERSHIP

3. The financial appraisal of Mr Walker's proposal is summarised in the main Cabinet Office paper. It demonstrates that in terms of net present value (NPV), the proposal is relatively robust. Even on a set of assumptions (case B in the paper) which are relatively pessimistic about the effects on Right to Buy receipts and Housing Benefit savings, the NPV to the public sector is £2 billion (allowing for the replacement of a substantial amount of the social rented housing sold). The NPV calculation can be worsened by varying the take-up by tenants in different groupings, and Annex D to the paper provides a ready-reckoner for doing so. But the chances of improvement in NPV are at least as great as the risks of worsenment. *up!*

*W?*

4. Despite the NPV calculation there are significant difficulties with flexi-ownership. In Treasury terms the major difficulty is a potentially enormous short-term public expenditure cost in terms of right to buy sales deferred. But there are also practical and political problems which could be very important and need to be highlighted.

5. One of the attractions of the scheme is that it would take flexiowners out of Housing Benefit altogether. About 70% of LA tenants get some or all of their rent paid through HB. The savings, and the reduction in case-load, are an attractive prize. But the extent of the savings is affected by the proportion of those going into flexi-ownership who are on HB. The more of them, the better. The Welsh Office expect a significant take-up from elderly people on full HB. They have built up substantial RTB discounts: their families might be willing to underwrite the cost of repairs and maintenance, which would no longer be met by local authorities, in order to get the equity in due course. On the other hand elderly people poor enough to attract 100% HB may be reluctant to move away from the certainty of their present status as tenants, with all their housing costs met in full, to a new status in which they would have to pay to mend the gutters or repair the plumbing. The DHSS believe the less favourable outcome in terms of HB is the more likely.



The short-term public expenditure effects are again highlighted in case B of the Cabinet Office paper. Even if none of the housing transferred into flexi-ownership were replaced, there would be an increase in public expenditure over the three years from 1990-91 (taken as the first year of the scheme) of over £2.2 billion. That is, of course, based on relatively pessimistic assumptions. Further work would be required to assess a plausible central case if the scheme were to be approved. But even on relatively optimistic assumptions (case A in the Cabinet Office paper) the scheme is only a little better than neutral in its first three years. So if colleagues do agree to flexi-ownership you are likely to be faced in this year's or next year's Survey with a very substantial irresistible bid for additional public expenditure provision for housing programmes.

7. The speaking note highlights some of the potential political and organisational difficulties with flexi-ownership as well as the public expenditure points. The most significant possible political difficulty is the extent to which the scheme will be seen as partial and unfairly benefiting one social grouping (at the expense of others).

#### Line to take

8. You may wish to highlight some of the difficulties at the meeting whatever attitude you take to the proposal as a whole. You will wish to assess the balance of the political risks amplified in the speaking note. In terms of short-term public expenditure control we would have to advise you to argue against the proposal strongly.

9. As a fallback position, there are some ways in which the proposal might be modified to restrict the public expenditure impact, and ways in which it might be delayed (eg: through a Green Paper) and further watered down. Points to make on these are included in the speaking note.

must surely say could only be considered in context of Survey as a whole.

## NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

10. The latest draft of the paper Mr Ridley wishes to put to the Prime Minister's group is attached. This may still be significantly revised, and there will be an official level meeting tomorrow to discuss the paper further. We will let you have a final version as soon as possible and a note on any significant changes that are made.

11. In brief, the paper sets out three versions of ring-fencing Housing Revenue Accounts (HRAs), in each of which the costs of Housing Benefit for each local authority's own tenants (but not the cost of rent allowances to private sector tenants) would be brought within HRAs as a first charge on rent income, thus - initially at least - greatly reducing the number of authorities in surplus on HRA. Main housing subsidy and housing benefit subsidy would be replaced by a unified housing subsidy based on notional rents and maintenance costs, designed to maintain discipline on rents and management and on the efficiency of Housing Benefit administration.

12. The first version prevents any payments by the local authority to and from the HRA so that surpluses are available only to reduce rents or increase spending. This is an unattractive proposition for the Treasury. The second version allows local authorities to make voluntary transfers from the HRA to their general fund in order to reduce their Community Charge. This is better than the first version in at least providing a mechanism which authorities could use to avoid continual reduction in real rents over time. But it would provide no real discipline for housing management and would not meet the Government's Manifesto aim of more business-like management of local authority housing.

13. The third version, which Mr Ridley favours, and which would meet Treasury aims of improving management and exerting pressures for efficiency, would enable DOE to specify amounts which authorities should transfer from their HRAs to their general funds. Any surpluses which remained after the cost of Housing Benefit had been met could therefore be taken out of the HRA and used to reduce the Community Charge or to retire debt.

14. Mr Ridley is no longer making any proposals on longer term rents policy and although one could use the mechanism proposed in version three to push up rents over time there is no bias within the system towards doing so. The use of existing revenue surpluses to offset the costs of Housing Benefit was, of course, floated at the Prime Minister's last meeting. It would push all but a very few authorities into deficit and would provide a step-change in public expenditure within the new planning total - although of course not necessarily in general government expenditure. Because authorities would continue to build up historic cost surpluses over time the mechanism for transferring those surpluses to general funds would be needed to maintain discipline in HRAs in the medium-and longer-terms.

15. Mr Ridley's proposals also raise the question of Departmental responsibility for Housing Benefit. Subsidy for rent rebates would go, leaving DHSS responsible for rent allowances for private sector tenants and Community Charge rebates. We understand that Mr Moore believes this to strengthen his case for transferring Housing Benefit to DOE. But there is a strong argument for DHSS retaining responsibility to ensure that the rules for operating rent rebates continue to be set centrally, in line with other income-related benefits. (We have, after all, just ended LAs' discretion to operate top-up schemes, as part of the reforms.)

#### Line to take

16. Version three of Mr Ridley's proposal meets the need to offset Housing Benefit costs and to exert pressures for efficiency within HRAs. These are important gains for the Treasury and we recommend you support them strongly. The proposal produces smaller benefit to the Exchequer than the earlier proposal to recover revenue surpluses in the longer term by netting them off other local authority grants. However, colleagues' collective view that such a proposal would raise a political storm with the Shire Districts has already effectively ruled the latter out. The new proposal would have a similar effect, but may be easier to sell politically in that it would involve no reduction in AEG. The changes would not remove the need for DHSS to control criteria for rent rebates, in line with the rest of the income related benefits.

17. I attach a speaking note which supports version three and sets out its advantages.

*Mark Betenson*

M C BETENSON

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## SPEAKING NOTE - FLEXI-OWNERSHIP

1. Cabinet Office paper is very helpful summary which sets out advantages and disadvantages in balanced way. But flexi-ownership would represent big political and economic gamble by Government - impact could be strongly positive or very adverse and once launched there would be no mechanism for reversal. So vitally important to have very clear view of risks and to proceed prudently if colleagues approve proposal.

Points to make - i. Public expenditure

2. Although in net present value terms (NPV) proposal looks relatively robust, risks to short term public expenditure are huge. Case B gives extra public expenditure of £2.2 billion over three years from 1990-91 (ie all years in next year's Survey). How would we fund that? It would require very substantial savings in individual Ministers' programmes across the board.

3. Case B not unrealistic. Assumes tenants prefer cash - in - hand to long-term capital (and <sup>that</sup> those fully recompensed for rent through Housing Benefit will see little advantage). This seems right - those tenants most biased towards capital growth likely already to have bought - remainder might go for RTB in absence of anything else but now will have choice of cash advantage for first time. And all logic suggests cash will be major preoccupation of low income groups.

4 May be still further risks to public expenditure and even NPV. Appraisal had to make assumptions about rate at which flexiowners buy additional equity. But must be strong possibility that flexiowners will eschew further equity purchase altogether - they will have home for life and minimal outgoings - why should they change attitudes and start buying equity?

#### ii. Political

5. One group gains (enormously). Virtually free accommodation and free gift of equity (most significant redistribution of wealth ever attempted) plus extra free 1 per cent of equity a year (right to buy purchasers do not receive this). But giving one group something for nothing risks alienating own natural supporters who have earned their wealth through thrift and hard work.

6. Existing right to buy owners struggling with mortgages may look enviously at next door neighbours enjoying same privileges of owner-occupation but significantly higher disposable income.

7. Those purchasing privately at bottom end of market may see value of property cut by influx of cheap flexi-owned houses - likely to be angered at Government penalising their providence.

8. Those in poorest groups in future could have access to cheap rented housing greatly reduced (more so than by smaller scale impact of right to buy). Homelessness may increase and Government come under additional pressure to build homes in public sector (hence replacement cost assumption in financial appraisal).

i. Practical

9. May make nonsense of much of Government's existing housing policy (and current Housing Bill). Private finance for housing associations, Tenants Choice, Housing Action Trusts, even Right to Buy, likely to be largely supplanted by flexi-ownership. Do we want to put all eggs in one (potentially flawed) basket?

10. Will flexi-owners really keep up repairs and take responsibility for homes? Or will further backlog of disrepair build-up with need for increasing Housing Corporation intervention, effectively as surrogate landlord?

11. Is Housing Corporation role in flexiownership compatible with wider role in providing social rented housing? If Housing Corporation unable to cope effectively with this extra burden, risk damaging what Government sees as main providers (housing associations) of essential rented housing for future.

12. Can cash limiting of provision for repairs (equity buy-back by Housing Corporation, and home improvement grants) really work? Government will come under ever increasing pressure for more provision without the intermediary of local authorities to blame for disrepair.

Line to take if proposal approved

13. Need to establish firm central expenditure assumptions and consider impact on this and next year's Surveys.

14. Need to consider reducing flex-iownership discounts still further (10/15 per cent) below right to buy discounts to enhance advantages of right to buy and improve prospects for initial cashflows.

15. Cannot accept extension of flexi-ownership to housing associations. Would destroy prospect of private sector co-operation with housing association movement in providing future housing for rent. Should reject idea of portable flexiownership (paragraph 20 of Annex B). Government would effectively be buying houses for the less well-off and intervening massively in the market for owner-occupation indefinitely.

16 . Resist any proposals for making flexi-ownership more attractive to flat-owners by light<sup>en</sup>ing the burden of service charges (paragraph 7 of Annex B). Potentially very expensive subsidies.

17. Given risks and potential for adverse political reaction (particularly from supporters), should at least float proposal in Green Paper before launching as Government commitment.



SPEAKING NOTE - NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

1. Proposal meet earlier concerns about setting long term policy of higher rents and penalising authorities running surpluses. In principle, welcome meeting housing benefit costs as far as possible from surpluses. Version three would provide means of exerting pressures for efficiency in running of local housing.

Further work needed to ensure equal incentives in running of Housing Benefit. But strongly support introduction of version three as soon as possible.

Points to make

2. Important to recognise that HRAs account in historic cost terms so surpluses are bound to build up over time if new housing is not built and rents and maintenance stay static in real terms. Right that surpluses should be available to meet full local costs of housing (ie including housing benefit) rather than being used to reduce rents to still less economic levels.

3. Since surpluses will again start to build up after change to meeting housing benefit costs, right to have mechanism (version three) which allows some discipline to be exerted on management of housing. Under existing system of voluntary transfers to General Rate Funds (equivalent to version two) some authorities subsidise rents and others spend excessively on maintenance.

4. Although effect of this proposal is similar initially to recovery of grant under earlier proposals it does not require continuing recovery as surpluses build-up in future. And housing benefit costs can be presented as properly related to the HRA function in a way that revenue support grant (original candidate for recovery) as part of AEG could not.

5. Even if flexi-ownership proposals approved, there will be substantial continuing core of local authority housing, so important to get financial regime right.

6. Important that rules for setting Housing Benefit should continue to be determined centrally by DHSS. Present system provides some incentives for control of housing benefit payments (eg 97 rather than 100 per cent subsidy). Would no longer bite on authorities who are meeting full cost of HB from rents. Would need to devise new incentives as part of combined subsidy system: otherwise LAs could operate HB in unacceptable way - at expense of better off tenants/central Government.

7. Some aspects of proposal need further consideration, particularly financing of new combined housing subsidy. Right that subsidy should be centrally determined but cost should be met in part by chargepayers as well as taxpayer - in line with existing housing subsidy (where Exchequer subsidises only 75 per cent of loan charges).

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From: R T J Wilson  
20 May 1988

P 03123

MR GRAY

IMPLICATIONS OF A SCHEME OF FLEXI-OWNERSHIP

1. Following the discussion in the small group of Ministers on 9 May, the Cabinet Office were asked urgently to prepare a paper which analysed the implications of a scheme of flexi-ownership on the lines proposed by the Secretary of State for Wales.
2. I attach a paper which does this, as a basis for discussion at the next meeting of the Ministerial Group on Thursday 26 May. It has been prepared in consultation with the Departments represented on the Group.
3. I am copying this minute and the paper to the private secretaries to the Secretary of State for Wales, the Secretary of State for the Environment, the Secretary of State for Scotland, the Secretary of State for the Social Services, the Chief Secretary and the Minister for Housing and Planning, and to Mr Peter Stredder (No. 10 Policy Unit).

*RTJW.*

R T J WILSON

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HOUSING POLICY

IMPLICATIONS OF A SCHEME OF FLEXI-OWNERSHIP

Note by the Cabinet Office

1. We were asked urgently to work up proposals for a scheme of flexi-ownership, including a financial assessment, on the lines proposed by the Secretary of State for Wales.

Outline of the Scheme

2. The proposal is that all council tenants should be offered a form of index-linked mortgage. Those who accepted the offer and became "flexi-owners" would be credited with a share of the equity in the dwelling equal to the Right-to-Buy discount minus 5 percentage points. The rest of the equity would be held by the Housing Corporation. Flexi-owners would cease to pay rent; they would cease to be eligible for Housing Benefit; and they would become responsible for repair and maintenance of the property. No interest would be payable, and no capital would have to be repaid while the flexi-owner used the house as his main residence; but the capital sum owed would be indexed in line with local house-price inflation and would fall due for repayment when the house was sold. Any decline in the value of the property, for instance because of disrepair, would fall on the flexi-owner's interest, not the Housing Corporation.

3. The flexi-owner would be able to purchase a larger share of the equity in steps of 0.5 per cent, at current market values; and would be credited with a 1 per cent bonus for each further 5 per cent of the equity which they bought, up to a maximum of 5 bonus points. Flexi-owners would also be credited with an additional 1 per cent of the equity for each year spent in the house after becoming a flexi-owner, up to the normal maximum discount under the Right-to-Buy scheme. The scheme would be administered by building societies, or perhaps clearing banks, who would be invited to tender competitively for the work.

4. Full details of the scheme are set out in Annex A to this note.

Non-financial Implications of the Scheme

5. Officials of the Departments represented on the Ministerial group have considered the implications of the scheme. A summary of the main points identified is in Annex B. In deciding whether to go ahead with the scheme, Ministers may in particular wish to consider the following aspects.

6. First, flexi-ownership might not in practice be very attractive to tenants in flats, because they would still have to pay a service charge to their former landlord, the local authority. Experience with the Right-to-Buy scheme suggests that this would be so: only 5 per cent of sales have been flats. It might be possible to devise ways of making the scheme more attractive to flat-dwellers (Annex B, paragraph 7), but there would be a public expenditure cost and any concession would presumably have to extend to the Right-to-Buy scheme. Ministers will wish to consider whether this should be explored further.
7. Second, there is the question whether flexi-owners would be able and willing to keep their property in a good state of repair. There are arguments both ways, summarised in Annex B. Ministers will wish to consider where the balance lies.
8. Third, another key question is whether flexi-ownership would divert large numbers of council tenants from exercising their Right to Buy. If it did so, the public expenditure implications could be substantial: see below. It is not possible to estimate with confidence how far such diversion would occur. Much would depend on how far tenants preferred to have immediate cash-in-hand as against the longer-term capital appreciation in the value of their house or flat: this point is elaborated in Annex C. But Ministers may wish to consider whether the flexi-ownership scheme could be modified to make it less potentially attractive to those who can afford the Right to Buy: for instance, by providing that the flexi-owner's initial equity stake should equal his Right-to-Buy discount minus 10, not 5, percentage points.
9. Next, there is the impact on housing associations. We have assumed that flexi-ownership in the form described above would not apply to tenants of housing associations, even though the Right to Buy does, in order not to undermine Government policy as set out in the current Housing Bill, which is to deregulate housing association rents and enable them to finance more capital projects with mixed public/private sector funding. But Ministers may wish to consider whether further work should be done on the idea of a form of 'portable' flexi-ownership for housing association tenants on the lines set out in paragraph 20 of Annex B.
10. Finally, there is the question how flexi-ownership would fit in with other new housing policy initiatives which the Government is launching; namely tenants' choice, the disposal of total local authority housing stocks (Rochfords) and Housing Action Trusts (HATs). To the extent that council tenants preferred to retain or exercise their flexi-ownership rights rather than transfer to another landlord or to a Housing Action Trust, the flexi-ownership scheme may reduce the impact and effectiveness of these other initiatives. Ministers will wish to consider whether this would be acceptable.

## FINANCIAL IMPLICATIONS

11. The financial implications of a flexi-ownership scheme are difficult to assess because they vary greatly - many hundreds of millions of pounds - upon what assumptions are made.

### Two Key Assumptions

12. One point of particular importance is not only the number of people who are assumed to exercise their flexi-ownership rights but also who they are. The higher the number of tenants not on housing benefit who exercise their rights, particularly from among those who might otherwise be expected to opt for the Right to Buy, the greater the danger of increasing rather than reducing public expenditure. Conversely, the higher the number of tenants on full or partial housing benefit rent rebates who opt for flexi-ownership, the greater the scope for public expenditure savings.

13. Another important factor is the extent to which the Government would need to incur public expenditure on the housing of people who would otherwise have been housed in the dwellings which become flexi-owned. The Department of the Environment and the Treasury consider that in assessing flexi-ownership account should be taken of the increased pressures which would arise either for new dwellings to let to poorer people to replace properties now flexi-owned, or for increased housing benefit if those people are housed in the private sector at market rents. They consider that the appropriate assumption to make is that provision could need to be made to replace two-thirds of the dwellings which move to flexi-ownership at the time when they would otherwise become available for reletting. (In practice, there would be a choice between this approach and paying housing benefit at a higher level to the equivalent number of poorer tenants; but this replacement assumption is used in order to make the calculation manageable.) The Welsh Office considers that it is inappropriate to make any such assumption: the requirement for such a large number of people to be housed in the rented sector into the indefinite future at a cost to the Exchequer has not been examined and is not self-evident.

### Sensitivity to Assumptions

14. To illustrate the sensitivity of the cost to the assumptions made, it may be helpful to take the two most extreme cases:

- a. if all tenants on housing benefit were to exercise flexi-ownership, and no one else, the effect on public expenditure would be a long-term saving (or net present value) of £31 billion and a cash-flow of:

(£ million.	Year 1	Year 2	Year 3.....	Year 7
Minus sign				
indicates	-53	-248	-593	-1,953
SAVING)				

If the assumption about replacement is added on top of this, the long-term saving (or net present value) would reduce to £11 billion and a cash-flow of:

(£ million.	Year 1	Year 2	Year 3.....	Year 7
Minus sign				
indicates	-53	-165	-320	-920
SAVING)				

b. if all tenants who were thought likely otherwise to exercise their Right to Buy were to become flexi-owners instead, and no one else, the effect on public expenditure would be a long-term cost (or net present value) of £0.2 billion and a cash-flow of:

(£ million.	Year 1	Year 2	Year 3.....	Year 7
Plus sign				
indicates	+648	+546	+492	+286
INCREASED EXPENDITURE)				

The assumption about replacement is not applicable since there would be no intention to replace houses bought under the Right to Buy.

#### Effect of Take-up by Different Groups

15. In practice, the actual outcome would be somewhere in between these two extremes. A great deal would depend on the extent of take-up as between four different groups:

- i. council tenants on housing benefit receiving full rent rebates;
- ii. council tenants on the housing benefit 'taper' receiving partial rent rebates;
- iii. council tenants not receiving rent rebates at all, with incomes too low for the Right-to-Buy scheme;
- iv. council tenants not receiving rent rebates with sufficient income for the Right-to-Buy scheme.

Annex D sets out a ready reckoner to illustrate the effect of take-up within these different groups on the cost of the flexi-ownership scheme. In essence it estimates that the difference to the PSBR for every 5 per cent of tenants in each group taking up flexi-ownership when the scheme is in the seventh year would be as follows:

(£ million. Minus sign indicates SAVING, plus sign indicates INCREASED EXPENDITURE)	Full rent rebates	Partial rent rebates	No rent rebates, income too low for RTB	No rent rebates, sufficient income for RTB
	-63	-29	-8	+22

If the figures for replacement are added in, the figures become as follows:

	-20	-4	+3	+28
--	-----	----	----	-----

The corresponding net present values would be:

Without replacement	-1,009	-581	-247	-70
With replacement	-279	-129	-26	+67

#### Two Illustrative Cases

16. Finally, to illustrate the effect which different combinations of take-up between these groups might have on the overall financial impact of the flexi-ownership scheme, we have taken the following two cases. One (Case A) assumes that local authority tenants are primarily interested in realising longer-term capital appreciation. The other (Case B) assumes that tenants would be primarily influenced by the immediate effects on cash-in-hand. These cases are not intended as forecasts of what would actually happen if flexi-ownership were to be approved.

#### CASE A

Assumption: take-up by tenants on full rent rebates:	35%
tenants on partial rent rebates:	75%
tenants not on rent rebates, not RTB:	75%
tenants with sufficient income for RTB:	5%

These assumptions would produce a long-term saving to public expenditure (net present value) of £19 billion which with replacement would drop to £5 billion. The short-term effect on public expenditure would be as follows (in £million, minus sign indicates SAVING, plus sign INCREASED EXPENDITURE):

	Year 1	Year 2	Year 3.....	Year 7
Without replacement	+19	-76	-249	-942
With replacement	+19	-17	-54	-204



## CASE B

Assumption: take-up by tenants on full rent rebates:	5%
tenants on partial rent rebates:	30%
tenants not on rent rebates, not RTB:	60%
tenants with sufficient income for RTB:	85%

These assumptions would produce a long-term saving in public expenditure (net present value) of £10 billion which with replacement would reduce to £2 billion. The short-term effect on public expenditure would be as follows (in £million, minus sign indicates SAVING, plus sign INCREASED EXPENDITURE):

	Year 1	Year 2	Year 3.....	Year 7
Without replacement:	+925	+731	+580	-5
With replacement:	+925	+766	+705	+486

## CONCLUSION

17. Ministers are invited to decide whether the scheme of flexi-ownership should be pursued and, if so, to give guidance on what further work is needed in the light of the issues raised above.

Cabinet Office  
20 May 1988

## CONFIDENTIAL

## RIGHT TO BUY FLEXI-OWNERSHIP

1. Objectives

The objectives of the Flexi-ownership scheme are:

- (i) to extend the benefits - and the responsibilities - of home ownership to a large number of council tenants who cannot afford to exercise their Right to Buy;
- (ii) thereby to reduce both the "dependency culture and the "poverty trap" as the numbers in receipt of Housing Benefit will drop sharply;
- (iii) to ensure that the stream of capital receipts arising from the scheme are effectively under central Government control rather than accruing to local authorities.

2. Eligibility

A local authority tenant eligible for Right to Buy will have the right under the scheme to acquire the freehold of his house (or long leasehold of his flat) for a purely nominal sum. It is for consideration whether the RTB cost floor provision should be ignored for the purposes of this scheme, or whether tenants should be debarred from exercising flexi-ownership in houses less than 8 years old. More importantly, it is for consideration whether eligibility for flexi-ownership should be confined to council tenants or extended to tenants of non-charitable housing associations (who currently have the Right to Buy). The financial appraisal of the policy has been carried out on the assumption that the scheme is confined to council tenants.

3. Financial position of new flexi-owner

The new flexi-owner will cease to pay rent. He will however owe a sum of money, equivalent to a proportion of the value of the house, to the Housing Corporation. On transfer the house will be valued on the same basis as for the Right to Buy. The share of the equity held by the flexi-owner will be related initially to his Right to Buy discount entitlement: he will be credited with a share equal to his Right to Buy discount minus 5 percentage points. Thus a tenant at the bottom of the RTB discount scale (32% after 2 years in a house) would initially receive 27% of equity. The sum owed to the Housing Corporation by the flexi-owner will in effect be a form of index-linked maturity mortgage. No interest is payable, and no capital is required to be repaid while the house is used as a sole or main residence by the flexi-owner or his heirs. However the capital sum owed will be indexed up annually in line with the movement of local house prices. The entire capital sum will become due when the house is sold (or used for letting or as a second home).

#### 4. Benefit Entitlement

The new flexi-owner would be entitled to social security benefits on exactly the same basis as any other owner-occupier. He would not qualify for rent rebate, but would be eligible for rate or community charge rebate. If he was eligible for income support, he would be entitled to help with the interest on loans taken out for essential repairs or improvements and with the cost of ground rents.

#### 5. The Housing Corporation's equity share

The Housing Corporation will make no payment to the local authority in respect of its share of the equity (the local authority will be compensated through central government subsidy for the residual costs which it faces when a house is transferred into flexi-ownership: servicing outstanding loan debt and, initially, a proportion of management and maintenance costs - a transitional arrangement to allow the local authority time to reduce its workforce).

#### 6. Additional equity purchase by flexi-owner

The flexi-owner will be able to increase his share of the equity by purchase at current market value at any time in minimum steps of 0.5%. As an incentive to do so, he will be credited with 1% bonus for each 5% of the equity he buys, up to a maximum of 5 bonus points. To qualify for the bonus, the equity purchase will have to be made at least one year before final sale of the house.

#### 7. Automatic build-up of equity entitlement

In order to encourage tenants to move immediately into flexi-ownership rather than stay on as tenants accumulating more discount, it is further proposed that the flexi-owner would be credited with one additional equity point for each year that he stays in the house, until the normal RTB discount maximum is reached (any bonus points credited for equity purchase would also have to count against the maximum: under no circumstances would the total equity share credited rather than purchased exceed the RTB maximum discount).

#### 8. Administration

The administration of the scheme would be carried out by building societies or perhaps major clearing banks, who would be invited to tender competitively. The building societies already have the branch offices, computer systems, etc necessary for practical operation of the scheme, and they would handle all transactions with individual flexi-owners. The Housing Corporation, having contracted out the administration of the scheme, should not require major additional staffing. Precise details would of course have to be discussed and negotiated with the institutions chosen to operate the scheme. In outline, however, it is envisaged that the flexi-owner would be given an 'equity save' account; the savings book resembles a normal building society account book but would show the current value of the flexi-owner's equity share in addition to cash saved. The flexi-owner would pay in as and when he could afford to do so, and would receive the normal building society rate of interest.

When the sum accumulated had increased to the current purchase price of 0.50 share of the equity, the flexi-owner's equity stake would automatically be increased: the purchase price being deducted from the balance in the account and remitted to the Housing Corporation. More work is needed to assess whether Exchequer support will be required for the administrative costs of the scheme, whether to the Housing Corporation or to building societies or banks.

#### 9. Repairs

The flexi-owner, like any other owner-occupier, will be fully responsible for the maintenance of his house. In the eventuality of major repairs, three avenues will be open to him:

(i) to borrow commercially against the equity which he holds in the house (in effect, to take out a second mortgage, the sum owed to the Corporation being the first charge on the freehold). If the flexi-owner were entitled to income support he could get help with the interest on such borrowing, with a consequent public expenditure cost (see para 4.)

(ii) to sell part of his equity to the Corporation at the current market value. (The flexi-owner's share is not however to be allowed to drop below 25% of the equity at any time). The Corporation's budget for equity repurchase will be cash-limited: the flexi-owner will not necessarily be entitled to funds immediately on demand. The Corporation will only purchase equity to fund essential repairs, not improvements; a rationing system will need to be devised where claims exceed the sum allotted;

(iii) the flexi-owner, like other owner-occupiers will, in principle, be eligible for means-tested renovation grants from the local authority (but it will be extremely rare for a flexi-owner to qualify for a mandatory grant: these will only be available for the installation of basic amenities - which are almost universally present in council houses - or where the house is in such a severe state of disrepair as to be unfit for human habitation).

It should be noted that the equity-sharing arrangement between the Housing Corporation and the flexi-owner (para 3) will both protect the value of the Corporation's share and give the flexi-owner a strong financial incentive to maintain his home: the sum owed to the Corporation is indexed up each year in line with the average increase in local house prices. If the flexi-owner neglects house maintenance so that the value of his house fails to keep up with the average, the sum he owes the Corporation will be unchanged: the entire loss in value will be borne by the flexi-owner.

#### 10. Job Mobility

Flexi-owners will be entitled to swap houses, with an appropriate adjustment in their percentage equity share, so that its cash value remains constant. Overall, the value of the Corporation's equity stake remains unchanged. By way of example:

Flexi-owner A owns 40% of a £20,000 house in Swansea = £8,000

He exchanges with flexi-owner B in Bristol who owns 50% of a £30,000 house = £15,000

Flexi-owner B now owns 75% of the Swansea house (=£15,000)

Flexi-owner A now owns 26.5% of the Bristol house (=£8,000 approx.)

In addition, a flexi-owner moving to a new job may be in a position to sell his house, take his share of the equity and use it as a deposit on a house bought on normal mortgage in the new area. Without participation in the scheme, he might not have the resources to get into home ownership even with his new found job. Another aid to mobility which could be considered later would be to enable a flexi-owner to take up a local authority tenancy in a different area, if he could not buy or flexi-buy there.

### 11. Flexi-ownership for tenants in flats

It is proposed that the flexi-ownership scheme should apply to flats in the same way as to houses; the initial equity share and rate of equity build up will follow the more generous RTB discounts available for flats. The flexi-owner will still have to pay the service charge from his own pocket, however; and in situations where this is likely to be substantial (eg in a tower block), take-up of flexi-ownership is likely to be low (as has been the take up of conventional RTB). Options to make the scheme more attractive to tenants of flats are considered in annex B.

### 12. Target groups for flexi-ownership

Flexi-ownership is intended to appeal to two main groups of tenants:

(i) those who are paying part or all of their rent at present out of their own pocket (and who therefore not only have a financial incentive to move into flexi-ownership but also have the income available to cope with routine house maintenance).

(ii) those on full housing benefit who can get help from their family with house maintenance. These will typically be elderly tenants with a large RTB discount entitlement. The incentive will be the acquisition of an asset for the family, as well as greater self-determination for the tenant. To this end, it is proposed that the rules on Right to Buy eligibility should be changed to allow non-resident close relatives to be co-purchasers (Family Right to Buy). This change would then feed through to the flexi-ownership scheme. (Under both schemes, all entitlement to housing benefit would cease). Flexi-ownership holds out a substantial new work incentive to those who are at present unemployed but would find it more worthwhile financially to take low paid employment if they did not have to pay rent.

Flexi-ownership is not aimed at the tenant who can afford the right to buy. That is the rationale for offering an initial equity share which lags five points behind RTB discount entitlement.

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ANNEX B

HOUSING POLICY: IMPLICATIONS OF FLEXI-OWNERSHIP

1. The effect of a scheme of flexi-ownership would depend on how many (and which) council tenants took it up and how they reacted to the opportunities which it presented. There would also be implications for housing policy to be considered.

IMPACT ON COUNCIL TENANTS

2. In England there are at present 2.6 million council tenants in houses and 1.45 million in flats (these figures exclude sheltered housing). The figures break down as follows:

(figures in thousands)	<u>Houses</u>	<u>Flats</u>
<u>On Housing Benefit</u>		
Rent rebate in full	960	620
Rent rebated only in part (the "taper")	650	360
<u>Not on Housing Benefit</u>		
No rent rebate, but income too low for Right to Buy	390	200
Income high enough for Right to Buy	600	270
	<u>2,600</u>	<u>1,450</u>

3. In Wales there are 240,000 non-sheltered council dwellings, 80 per cent of which are houses. About 67 per cent of tenants receive Housing Benefit rent rebates.

4. In Scotland, there are around 800,000 local authority tenants, of which some 44% are in houses. Around 51% of tenants are on housing benefit.

Tenants in Flats

5. Although the flexi-ownership scheme would apply to tenants in flats on the same terms as to tenants in houses, it might in practice be less attractive to them. This is because in addition to being responsible for the repair and maintenance of their own flats they would also be liable to pay a service charge to their former landlord, the local authority, as a contribution to the repair and maintenance of the common parts of their block of flats. Such charges cannot be met from Housing Benefit (although help with service charges can be provided through the benefit system for flat owners who qualify for income support). This liability to a service charge could be a deterrent to take-up of flexi-ownership, particularly if the local authority was known to be opposed to the scheme. It could mean that in parts of the country where there are a lot of council flats, flexi-ownership

might be slow to take off. In London, four-fifths of council houses are flats whose tenants often pay more in service charges than they do in rent.

6. This is a problem which has already arisen with the Right-to-Buy scheme. Tenants in houses have been much more ready than tenants in flats to exercise their rights under this scheme: only 5 per cent of Right-to-Buy sales have been flats.

7. There would be a choice between accepting that the scheme would have little impact on flat-dwellers in London and elsewhere, and making it more attractive to flat-dwellers, with consequent public expenditure implications. Possibilities for making it more attractive include:

i. exempting flexi-owners from service charges. This would involve an increased subsidy to local authorities to compensate them for lost revenue. There might also be pressure to extend the concession to tenants exercising their Right to Buy;

ii. giving flexi-owners a right to apply to the Housing Corporation for a loan to pay for service charges, which would be secured against their equity in the flat.

It would not however seem sensible to extend Housing Benefit to cover service charges. Such a concession, if confined to flexi-owners, would be inequitable; and if extended to all owner-occupiers would be both expensive and a distortion of the primary purposes of the Housing Benefit scheme. It would also defeat one of the objectives of flexi-ownership, by increasing dependency on benefit.

#### Tenants on Housing Benefit

8. Flexi-ownership would apply as much to council tenants who received full or partial Housing Benefit rent rebates as to those who paid their rents themselves. To the extent that tenants receiving rent rebates became flexi-owners there would be corresponding reductions in payments of Housing Benefit. The public expenditure savings could be substantial: see Annex C. For the individuals themselves the scheme would offer a possible avenue into home-ownership to which they could otherwise not aspire.

9. Such tenants would also, however, have to take on responsibility for keeping their property in a good state of repair. One key question is whether they would be able and willing to do so.

10. On the one hand, it can be argued that flexi-ownership would encourage tenants to take on a financial responsibility which the Government knew they might be unable to bear and could lead to a long-term deterioration of the housing stock. In particular, houses might be less extensively modernised than they would have been if they stayed in local authority, since flexi-owners could only get financial assistance with repairs. When and if there was

evidence that the state of flexi-owned stock was deteriorating, the Government would come under increasing pressure to provide financial help. There would be increased demand for improvement grants. And if flexi-owners with a sufficient "endowment" of equity were to take advantage of this to require the Housing Corporation in effect to finance the repair of their houses, this would, so the argument runs, lead to pressure for a growth in public expenditure on repairs even though Housing Corporation loans were cash-limited.

11. Against this it can be argued that:

i. there would be many ways which people might find to look after their houses, once they had the freedom and incentive to do so. Much of the cost of repairs would consist of labour and it would, for instance, be open to them to turn to friends, relatives and do-it-yourself;

ii. the present state of much public sector housing is already poor, with a backlog of repairs totalling £10 billion or more. By making people more responsible, flexi-ownership would arguably be at least as likely to lead to an improvement in the housing stock as to a further deterioration, particularly if it assumed that tenants in the worst housing do not exercise their rights;

iii. it would be open to flexi-owners to apply to their banks or to building societies for loans, like any other householder, instead of the Housing Corporation. Moreover, equity repurchase by the Housing Corporation to enable flexi-owners to cover the cost of repairs would ultimately be realised on sale of the dwelling;

iv. tenants at present on the Housing Benefit "taper" might be able to finance repairs from their savings in rent;

v. the scheme is so constructed that a decline in the value of the property because of bad repair would fall only on the flexi-owner, not the Housing Corporation.

12. One possibility would be to give the Housing Corporation the right to enter property and bring it up to a minimum standard of repair, making the cost a charge against the flexi-owner's equity. But:

i. the introduction of flexi-ownership would be a major new task for the Housing Corporation, without taking on the further additional role of monitoring repairs and maintenance, perhaps involving a new inspectorate;

ii. no other sector of home owners is subject to this sort of sanction for non-repair. Would it be right to single out flexi-owners in this way?



## Tenants not on Housing Benefit

13. Tenants not receiving a Housing Benefit rent rebate would have the added incentive that in return for undertaking to repair and maintain their property they would no longer have to pay rent. They might also be particularly attracted by the prospect of buying additional equity over time.

14. A key question in relation to this group is how many of those who would otherwise exercise their Right to Buy would prefer to take up flexi-ownership. Receipts from the Right-to-Buy scheme are at present running at £1.2 billion p.a. and the Department of the Environment in their PES bid estimate that receipts will continue at or above this level in each of the next three years, with sales of 70-80,000 dwellings p.a. The deferral of a significant part of these receipts would represent a substantial public expenditure cost.

15. It is not possible to estimate with any confidence the number of prospective Right-to-Buy purchasers who would switch to flexi-ownership. On the one hand, tenants who could afford the Right-to-Buy might be attracted by the way in which flexi-ownership left them with more cash in hand. On the other hand, the Right-to-Buy scheme would be the better investment of the two schemes because the tenant would benefit from 100 per cent of the increase in the value of the property, rather than from the increase in the value of only part-share in the dwelling. Annex D summarises financial factors which could influence the behaviour of prospective flexi-owners.

16. One solution might be to accentuate the difference between the two schemes. For instance, the proposal under flexi-ownership is that the tenant would be credited with an initial equity stake equal to his Right-to-Buy discount minus 5 percentage points. It would be possible to increase this discount to, say, 10 per cent, and thereby strengthen the comparative advantage of the Right-to-Buy scheme.

## IMPLICATIONS FOR HOUSING POLICY

### Impact on Housing Associations

17. The implications of flexi-ownership for the role of housing associations need to be borne in mind.

18. So far as the tenants of housing associations are concerned, we have assumed in Annex C that flexi-ownership would not extend to such tenants even though they enjoy the Right to Buy where their housing association has non-charitable status. One main reason for the assumption is the need not to undermine the Government's stated policy, implemented in the current Housing Bill, of deregulating housing association rents and enabling housing associations to finance more capital projects by mixed funding from the Exchequer and the market. The introduction of

flexi-ownership for housing associations would make mixed funding hard to obtain. This would however need careful presentation with housing association tenants.

19. More generally, Government policy has been to make housing associations the main provider of new dwellings for rent. The hope has been that the regimes for local authority and housing association tenancies will draw closer together. Restriction of flexi-ownership to local authority tenants would make housing association tenancies less attractive, and might mean that there had to be some re-think about the role of housing associations.

20. One solution would be to develop a form of 'portable' flexi-ownership for housing association tenants. Under such a scheme, tenants would not have an absolute right to flexi-ownership, but would be able to put their names down on a waiting list. As and when re-lets were required for new tenants in their area, existing tenants on the flexi-ownership waiting list would be put in funds to buy a house for sale in the open market, up to a maximum cost of say 70% of Housing Association new build. They would owe a debt to the Corporation on exactly the same equity-sharing basis as for ex-local authority flexi-owners. Meanwhile, the Housing Corporation would not be allowed to finance new housing association developments in an area where there were existing tenants on the flexi-ownership waiting list. The overall effect of such a scheme could be to meet demand for new tenancies by speeding up the rate at which existing housing association dwellings changed hands rather than require housing associations to build new houses. There would be a somewhat higher initial capital cost (Housing Corporation capital grant rate for England is 60%) but also savings on Housing Benefit. This possibility has not yet been examined, but further work on costings could be done.

#### Impact on Tenants' Choice

21. A further issue is whether tenants would be able to transfer their flexi-ownership rights to a new landlord under the new tenants' choice arrangements under the Housing Bill.

22. One important attraction for prospective landlords in tenants' choice is the potential use of vacancies, for re-letting on better terms or - in limited circumstances - disposal. It can be argued that flexi-ownership would greatly reduce the number of these vacancies (at least in houses, if not in flats) and thus make it much less likely that any new landlord would want, or could get, private finance for dwellings whose tenants had the right to flexi-ownership. One option would be to provide that tenants who voted to leave the local authority sector and rent their dwellings under a new landlord ought not to be able to take their rights to flexi-ownership with them. But the prospective loss of flexi-ownership rights would then be a disincentive to tenants voting on whether they should transfer to a new landlord. Whether or not tenants were able to keep their rights to flexi-ownership, therefore, the scheme would seem likely to reduce the number of tenants' choice transactions.

23. One solution might be to undertake to pay either a continuing subsidy or a capital grant to the new landlords to ensure that they were no worse off than they would have been if the right to flexi-ownership had been exercised before the transfer took place. On the face of it such an approach might be no more expensive than the compensation arrangements which would have been needed for the local authority which originally owned the housing. But if the attraction to prospective landlords lay in the expected vacancy rate of dwellings, the transaction might still not prove sufficiently attractive.

#### Impact on Rochfords: Disposal of Total Local Authority Stocks

24. As with tenants' choice, flexi-ownership would also reduce the scope for the disposal of total local authority stocks of housing, by reducing the attraction of the deal for prospective new landlords and by strengthening the resistance of local authority tenants to the loss of their flexi-ownership rights.

#### Impact on HATs

25. Achievement of the Government's objectives on Housing Action Trusts (HATs) will depend upon the ownership by the HAT of tenanted property, since it can only control its own tenants. Under flexi-ownership tenants opposing the imposition of a HAT would be able to frustrate it by becoming flexi-owners. One solution might be to restrict tenants' rights to flexi-ownership in HAT areas; but this could be difficult to defend.

#### Impact on Other Groups

26. There might be some resentment among those who have already exercised the Right to Buy, or who are struggling with private sector mortgages, that local authority tenants were being given an attractive deal, particularly if the effect were to depress house prices at the lower end of the housing market. It would have to be pointed out that:

i. the Government had on previous occasions improved the terms on which the Right-to-Buy and other schemes had been available. It cannot undertake not to introduce new schemes on the grounds that previous generations would have liked to benefit from them;

ii. the Right-to-Buy scheme and private sector mortgages would still offer a better deal as a long-term investment than flexi-ownership.

**FLEXI-OWNERSHIP, RIGHT TO BUY AND RENTING  
FROM THE STANDPOINT OF THE HOUSEHOLDER**

ANNEX C

The finances of flexi-ownership, Right-to-Buy (RTB), and continuing to rent have two aspects: (i) cash flow; and (ii) capital appreciation.

	(A) Tenants with 100% rent rebate	(B) Tenants with rent rebate under 100% (average rebate)	(C) Tenants with no HB but income too low for RTB	(D) Tenants with sufficient income for RTB
<b>A. Cash Flow</b>				
1) Rent if they remain tenants	NIL	£6.80	£20.40	£20.40
2) Outgoings in the year of purchase if they buy with RTB, average discount	n.a.	n.a.	n.a.	£31 (mortgage net) + £5 (upkeep and insurance)
3) Flexi-ownership outgoings (upkeep only)	£4	£4	£4	£4
4) Net income (net of tax and NI contributions)				
(a) Couple, no children	£56 (£66)	£66 (£76)	£87 (£97) - 150	£150 +
(b) Pensioner couple	£73	£83	n.a.	n.a.
(c) Single pensioner	£50	£60	n.a.	n.a.
5) Equity purchase (assumed amount)	nil	£1.40	£8.20	£15.50
6) Disposable income net of housing costs for couple with no children				
(a) If tenant	£56	£59.20/£69.20	£76.60/£129.60	£129.60 +
(b) If buys with RTB	n.a.	n.a.	n.a.	£114 +
(c) Flexi-owned but buys no equity	£52	£62/£72	£93/£146	£146 +
(d) Flexi-owned who buys assumed amount of equity	£52	£60.60/£70.60	£79.80/£137.80	£130.50 +

**B. Capital appreciation**

Value of the house, less debt, when household dissolves

i) If buys with RTB	n.a.	n.a.	n.a.	£8,300
ii) Flexi-owned, no equity bought	n.a.	£7,600	£7,600	£7,600
iii) Flexi-owned, buys equity	n.a.	£0,300	£2,000	£7,100

## Ready Reckoner

	A.	B.	C.	D.
	Tenants with 100% Rent Rebate	Tenants with Partial Rebate	Tenants with No HB But Insufficient Income for RTB	Tenants with Sufficient Income for RTB
(1) Eligible population (England 1987)	960,000	650,000	390,000	600,000
(2) 5 per cent of (1)	48,000	32,500	19,500	30,000
(3) Tenants who would have exercised RTB	nil	nil	nil	16,750
<b>I</b> <u>Cash flow in year 1, out-turn prices, £ million</u>				
(4) Rent foregone	+ 65.40	+ 44.30	+ 26.55	+ 18.05 (*)
(5) Saving on management and maintenance	- 29.60	- 20.05	- 12.05	- 8.20 (*)
(6) Housing Benefit saving	- 65.40	- 29.55	nil	nil
(7) Repayment of equity to Corporation when House Sold	- 30.50	- 18.25	- 10.40	- 11.75
(8) Tax relief on loans financing sales	+ 2.05	+ 0.95	+ 0.55	+ 0.65
(9) Insurance	+ 3.80	+ 2.55	+ 1.55	+ 2.35
(10) RTB receipts deferred	nil	nil	nil	+ 60.75
(11) Tax relief deferred	nil	nil	nil	- 8.00
(12) Cash purchase of equity	nil	- 2.80	- 10.40	- 29.30
(13) Repair & Modernisation (net)	- 8.80	- 6.35	- 3.80	- 2.60
(14) Sum of (4) to (13)	- 63.05	- 28.90	- 8.00	+ 21.95
(15) Partial replacement of re-lets	+ 43.30	+ 25.00	+ 11.30	+ 6.10
(16) Sum of (14) and (15)	- 19.75	- 3.90	+ 3.30	+ 28.05
<b>II</b> <u>NPV (base year prices (£m))</u>				
(17) NPV corresponding to (14)	- 1,309	- 861	- 247	- 70
(18) NPV corresponding to (16)	- 279	- 129	- 26	+ 67

\* Refers only to tenants who would not have exercised RTB.

MINUS means a SAVINGS; PLUS means a COST

# CONFIDENTIAL

DRAFT LETTER FOR PS/SECRETARY OF STATE TO SEND TO NIGEL HICKS NO  
10 COVERING NEW FINANCIAL REGIME PAPER

I enclose a copy of the paper on the new financial regime for  
local authority housing which my Secretary of State is presenting  
to the ministerial group on Thursday morning.

I am copying this letter and the paper to J Rutter  
(Treasury), Geoffrey Podger (DHSS), D Crawley (Scottish Office), J  
Shortridge (Welsh Office), Trevor Woolley (Cabinet Office) and  
Peter Stredder (No 10 Policy Unit).

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A NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

Note by the Secretary of State for the Environment

1. At our meeting on Monday 9 May, colleagues asked to see an alternative approach to a revised financial regime for local housing authorities, incorporating a 'ring fence' between councils' housing revenue accounts (HRAs) and their General Funds (GFs), but omitting the proposals to recover revenue surpluses to the Exchequer. They were, however, interested in schemes which would use revenue surpluses to offset the costs of Housing Benefit for each council's own tenants as far as possible.

2. Annexes 1-3 set out three versions of ring-fenced HRAs constructed on this basis. In all three versions, open-ended subsidy from the GF to the HRA is not permitted, the rent rebate element of Housing Benefit costs is offset as far as possible by surpluses on housing accounts, and a centrally-determined housing subsidy meets the gap between notional income to the HRA and notional expenditure from the HRA. It is important to use notional rather than actual sums, since otherwise councils would be able to increase their entitlement to subsidy by holding rents down and/or pushing management and maintenance expenditure up. Subsidy is therefore calculated by reference to actual loan charges and interest receipts (which are largely outside the control of the authority), but to guideline levels of rent and management and maintenance expenditure.

3. In considering the effects of the three different versions, it should be borne in mind that income in all authorities' HRAs is tending to rise (as a result of interest receipts from RTB sales) and expenditure is tending to fall (as loan charges fall

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in real terms). This trend is evident from the fact that the number of authorities whose HRAs require subsidy (either main housing subsidy or via rate fund contributions) in order to balance has fallen from 366 in 1979 to only 223 in 1988. The HRAs of the remaining 143 housing authorities are in overall surplus, and the surplus is growing.

4. The trend towards surplus will accelerate as investment in new building by LAs reduces further (a consequence of our current policy). Other factors may also affect this trend; in particular, if unemployment continues to fall entitlement to rent rebates will also fall, and authorities' HRAs will move more quickly into surplus than the table - which assumes that HB entitlements remain at current levels - suggests.

5. Annexes 1-3 describe three versions of the basic scheme which are progressively more effective in tackling future surpluses. Version 1 (described in Annex 1) is included for illustrative purposes only. In this version, the ring-fence is absolute: both payments to and payments from the HRA are forbidden. In authorities not in receipt of subsidy, the growing surplus can only be used to depress rents or increase spending on management and maintenance: profligacy is built into the system. For authorities in receipt of subsidy, this problem could be avoided for a time by cutting subsidy in line with the growth in surpluses, but this version is inherently unstable in the longer term.

6. Version 2 (described in Annex 2) avoids the automatic profligacy of Version 1 by permitting voluntary transfers from the HRA to the GF, so enabling authorities who wish to do so to use some or all of their HRA surplus to reduce their community charge. This avoids the overwhelming defects of Version 1, but it would still leave a group of authorities - whose numbers will grow steadily and, on more optimistic assumptions about the



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impact of future economic success, quite rapidly - in a position to use the surplus on the HRA to cover up profligacy and slack management of their housing.

7. The ineffectiveness of either of the first two versions in restraining local authority profligacy once the inevitable surpluses start to arise is a strong argument in favour of Version 3 which is particularly designed to tackle this problem. Under Version 3 an amount is specified which is to be transferred from the HRA to the GF wherever an authority can generate a surplus from its net rental income. Any surplus remaining after the costs of rent rebates had been met would be taken out of the HRA (and used to benefit the community charge payers). Authorities would therefore be obliged to run their housing on a businesslike basis and surpluses could not be channelled into absurdly low rents or profligate management.

8. It will be important to limit authorities' entitlement to subsidy in any version of this scheme, in order to prevent them milking the Housing Benefit system for additional revenue.

9. Annex 4 shows the prospective surpluses or deficits on the HRA before rent rebates are netted off; rent rebate liabilities; and the balance on the HRA after rebates are netted off. The last of these represents a requirement for subsidy (both personal subsidy to tenants, and "bricks and mortar" subsidy to debt charges, maintenance costs, and management). Since colleagues have made it clear they do not want a high rent policy, the exemplification assumes that rents will rise by no more than 1% per annum in real terms. The national figures still show a net deficit in the year 2000/1, but it is falling rapidly and the number of individual authorities in surplus is rising all the time.

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10. Any one of the versions outlined above would deliver savings in Exchequer subsidy and in public expenditure within the new planning total by in effect making housing benefit subsidy a first charge on rent income. This achieves a decrease in total net subsidy to local authority tenants below the level which would obtain if the present system were continued. It also increases the number of authorities who are initially dependent on subsidy to balance their HRAs, and so extends the scope for control by subsidy cuts. With a growing number of HRAs in surplus, however, only Version 3 would enable the Manifesto aim of securing more businesslike management of local authority housing to be achieved in all authorities. For this reason I commend Version 3 to colleagues.

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ANNEX 1

VERSION 1

In this version, income and expenditure on the Housing Revenue Account are as follows:

<u>Income</u>	<u>Expenditure</u>
- Rents net of Housing Benefit	- Loan charges
- Interest on capital receipts	- Management and maintenance
- Subsidy	

The new subsidy replaces the existing Main Housing Subsidy, the housing component of Rate Support Grant, and Housing Benefit Subsidy for local authority tenants. (Housing Benefit Subsidy would continue to be paid to the General Fund in respect of private sector tenants.) Subsidy would continue to be calculated as the difference between notional income, incorporating an assumption about increases in gross rents, and notional expenditure, incorporating an assumption about increases in management and maintenance costs.

In this version, the ring fence around the HRA is absolute. If net rents plus interest on receipts generate a surplus over loan charges plus M&M costs, that surplus will be locked into the HRA, where it can be used to keep rents down or pay for inefficient or extravagant management and maintenance.

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ANNEX 2

VERSION 2

In this version, income and expenditure on the Housing Revenue Account are as follows:

<u>Income</u>	<u>Expenditure</u>
- Rents net of Housing Benefit	- Loan charges
- Interest on capital receipts	- Management and maintenance
- Subsidy	- Voluntary transfers to General Fund

The new subsidy would be calculated on the same basis as in Version 1. However, in this version, if net rents plus interest on receipts generate a surplus over loan charges plus M&M costs, that surplus can be transferred to the General Fund, as a benefit to community charge payers, or retained within the HRA, where it can be used to keep rents down or pay for inefficient or extravagant management and maintenance.

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ANNEX 3

VERSION 3

In this version, income and expenditure on the Housing Revenue Account are as follows:

<u>Income</u>	<u>Expenditure</u>
- Rents net of Housing Benefit	- Loan charges
- Interest on capital receipts	- Management and maintenance
- Subsidy	- Prescribed contributions transferred to General Fund
	- Voluntary transfers to General Fund

The new subsidy would be calculated on the same basis as in Versions 1 and 2. In addition, however, in this version authorities whose notional income exceeded their notional expenditure would be required to transfer the surplus, as calculated, as a prescribed contribution from the HRA to the General Fund. This would ensure that pressure for efficient management and maintenance would be sustained by preventing the recycling of surpluses within the HRA.

Authorities would still be able to make additional voluntary transfers to the General Fund, over and above the prescribed contribution. If these transfers resulted from more efficient management and maintenance, the authority would obtain the full benefit from them. However, if the surplus were achieved by increasing rents more than the guideline increase used in the subsidy calculation, no additional subsidy would be received - subsidy, once calculated at the start of the year, would be fixed. So a large proportion of the rent increase (two thirds in 1990/91, possibly more in later years) would be required to meet extra Housing Benefit costs. Large gross rent increases would still produce only a small increase in net income, and would tend to push tenants towards RTB, tenants' choice transfers or "flexi-ownership".

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ANNEX 4

EXEMPLIFICATIONS

1. The summary of results at national level shows how the volume of surpluses in individual authorities builds up over time. The exemplification covers the years to 2000/1 and shows, for each year:

- (col. 4) the balance on the HRA before HB is netted off;
- (col. 5) the HB liability;
- (col. 6) the balance on the HRA after HB is netted off.

2. For these exemplifications the proportion of rent which is in fact met from HB within each authority (as assessed by comparing DHSS 1988/89 HB estimates with gross rents) is assumed to apply to future years. However, RTB purchasers in the future are assumed not to be on HB, so as their rent payments are removed from the calculation the proportion of rents being met from HB goes up (by about 1% a year).

3. The components of the ring-fenced HRA are here taken to be:

- (income) gross rents plus interest on 75% of new receipts;
- (expenditure) management and maintenance plus loan charges on debt.

It is assumed that 75% of accumulated receipts have been used to offset outstanding debt, and that 25% of accumulated receipts plus 25% of new receipts will be used to finance new spending.

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THE NATIONAL HOUSING REVENUE ACCOUNT  
EFFECTS OF HOUSING BENEFIT (RENT REBATE) OFFSET

assumed real rent rise = 1% p.a.

figures in £m

		1	2	3	4	5	6
		No of tenants assumed (000s)	Total of surplus	Total of deficits	Total net balance before HB	HB	Net balance after HB
Ring fence.	1990/1	4,150	308	373	-65	2384	-2449
RTB 2% pa	1995/6	3,751	732	131	601	2505	-1904
	2000/1	3,391	1154	53	1101	2632	-1531

BF 2675 27/5

FROM: M C BETENSON

DATE: 25 May 1988

1. MR WOOD ✓
2. CHANCELLOR

Sw 2575

cc PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Paymaster General  
 PS/Economic Secretary  
 Sir Peter Middleton  
 Sir T Burns  
 Mr Anson  
 Mr Monck  
 Mr Phillips  
 Mr Edwards o/a  
 Mr Spackman  
 Mr Potter  
 Mrs Holmans  
 Mr Cotmore  
 Miss Haskinsor  
 Mr Tyrie

## HOUSING: SUPPLY SIDE MEASURES

Ms Wallace's minute to Mr Instone of 3 May (copy attached) commissioned a short note for you to send to Mr Ridley setting out the case for a package of housing supply side measures.

2. It may be prudent to take a rather low key line in a letter. Work is already going forward at Mr Ridley and others' behest on some of the elements of the package. Item by item the current position is as follows:

i. removing the requirement for planning permission for sub-division of residential property into two separate dwellings - DOE have not been looking at this issue;

ii. taking another look at the building and safety regulations, to see if there is scope for any relaxation - the Financial Secretary is already pursuing the scope for making further major reductions in the requirements of the building and fire regulations;

iii. an initiative to develop publically-owned unused land, especially in London - Mr Ridley has already appointed consultants to study the scope for housing development in five areas of East London. That study will not be looking



specifically at publically-owned land, but the Chief Secretary will be pressing colleagues further on the need to dispose of unused land and empty dwellings in the context of the survey;

iv. confiscation of empty dwellings from local authorities - Mr Ridley is committed to making a statement at report stage of the Housing Bill on tackling the problem of local authority empty dwellings. Confiscation proposals would not feature in such a statement but DOE officials have been asked to look into the merits of a confiscation policy in the longer term.

v. re-examination of the guidelines to District Valuers, in order to ensure that council flats are not over valued for Right to Buy purposes - District Valuers get involved in relatively few valuations of flat sales, particularly in inner cities, because there are currently few appeals against local authority valuations.

3. As the Financial Secretary is likely to write shortly to Mr Maude on reviewing the building and fire regulations I do not recommend you raise that issue in a letter. The attached draft raises each of the other items Ms Wallace listed, but there are two points I should make. On item iii. I have interpreted your proposal as expanding on Mr Ridley's consultancy study approach. There is clearly a need to identify development opportunities for land currently in public ownership, so such an approach is potentially useful. Since the Treasury is also in the lead in pressing Government Departments to release land, the draft letter mentions the Chief Secretary's Survey interest. On item v. you have a choice of approaches. The Valuation Office, as part of the Inland Revenue, reports to you. So you could simply press officials there to review procedures. However, since District Valuers do not in practice get involved in many flat sales, it might be more sensible to concentrate on a review of valuations by local authorities. The draft letter therefore raises the issue with Mr Ridley and attempts to distinguish between valuation practice and the question of whether or not flat sales should be encouraged by further increases in Right to Buy discounts (I understand that Mr Waldegrave has asked for

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a separate review of the maximum cash discount limit of £35,000 for Right to Buy sales). The Right to Buy would of course be greatly affected by introduction of flexiownership but it seems right in this letter to concentrate on this more limited technical issue.

*Mark Betenson*

M C BETENSON

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## DRAFT LETTER TO

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

## HOUSING: SUPPLY SIDE MEASURES

I have recently been giving some thought to whether we might add to our initiatives in the housing field a number of further specifically supply side measures. The suggestions I have in mind could be seen as logical extensions of some of the policies which you have been developing over the last two years.

2. First, I wonder if we might consider a limited relaxation of the planning laws, to enable owners to sub-divide residential property into two separate dwellings without any requirement for planning permission. I would see this as offering some encouragement to the expansion of the stock of dwellings available, particularly in inner city areas. It could provide an incentive for more efficient use of existing assets, might assist the elderly in realising frozen capital, and might also help revive interest in private renting by small landlords.

3. A second initiative we might consider could be seen as building upon your recent appointment of consultants to study the scope for housing development in five areas of East London. That study is not, of course, aimed solely at public~~ly~~-owned land, but it occurs to me that one means of promoting sales of unused public land, and its subsequent development, might

*(be more specific?)*

be to extend the consultancy approach rather further. I should be interested in your views. As you know, John Major will be pressing colleagues on the need to dispose of unused or underused land and housing in the current Survey and an initiative along the lines I suggest could be seen as supplementing that work.

4. On a related but distinct issue, I wonder if there is any further action we could take to force local authorities into tackling the problem of their own empty dwellings. I know that the question of confiscation has been raised in the past, and I do think it would be worthwhile looking at the possibility again. Given the expanding role which we envisage for the Housing Corporation and housing associations generally, one option might be to transfer confiscated dwellings to them for renovation and future renting, or for sale into ~~owner~~ occupation. The Housing Action Trusts which you are planning to set up might also have a role here. I can see that there might be considerable <sup>o</sup>pposition to confiscation but if it were put forward as a measure to combat homelessness as well as to encourage efficient use of stock, the presentation of the policy could be eased.

5. Finally, like you I have been concerned by the relatively small proportion of tenants of council flats who have taken up the Right to Buy, despite improvements in discounts. I think it could be helpful if we were to review the extent to which <sup>question of whether there are</sup> obstacles to sales (are) <sup>+</sup>insti<sup>t</sup>utionalised in the valuation process for flats. If tenants are not taking up the option of purchase, at least one of the reasons for their decision

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must be that they themselves do not consider the flat they occupy to be worth the valuation likely to be placed on it (even with discount). I understand that the valuations of ~~relatively few flat sales are examined by District Valuers.~~ The majority are left to local authority valuers to assess. We might therefore consider a detailed review of the approach local authority valuers take and the extent to which existing statutory requirements? may place constraints on the number of flat sales.

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

NIGEL LAWSON



CHIEF SECRETARY  
10, DOWNING STREET  
LONDON SW1A 2AA

*17 X MGN,  
the status of the  
future.  
EST/Robert*

Mr S N Wood  
CX Sir Peter Middelton  
Mr Anson Mr H Phillips  
Mr Edwards Mr Turnbull

27 May 1988

From the Private Secretary

*Dear Rose* Mr McIntyre Mr Benson Mr Call.

*BF next  
7/6*

*py*

HOUSING POLICY

The Prime Minister held a meeting yesterday afternoon on housing policy. Those present were your Secretary of State, the Secretaries of State for Wales, Scotland and for Social Services, the Chief Secretary, Treasury, the Minister for Housing and Construction, Sir Robin Butler, Richard Wilson and Andrew Wells (Cabinet Office), and Peter Stredder (Policy Unit).

I would be grateful if you and other copy recipients would ensure that this record of the discussion is seen only by named individuals.

A New Financial Regime for Local Authority Housing

The meeting considered your Secretary of State's paper of 23 May on a new financial regime for local authority housing. Your Secretary of State said that the paper fulfilled the remit from the meeting on Monday 9 May to explore an alternative approach to the new financial regime, under which the surpluses on local authorities' housing accounts would be used to meet the costs of rent rebates for authorities' own tenants. Three versions of the scheme were described. They differed in their treatment of any surpluses which remained after the full cost of rent rebates had been met. He recommended version 3, under which local authorities would be obliged to transfer any such surpluses to their General Funds. This would ensure that all authorities faced pressure to run their housing accounts in an efficient and businesslike way, but without claw-back of those surpluses to the Exchequer, a feature of his earlier proposals which colleagues had found particularly difficult.

In discussion the following main points were made:

- a. The new proposals were a great improvement on the alternatives which had previously been considered by Ministers. They would put pressure on all local authorities to charge rents at reasonable levels without requiring the claw-back of surpluses to the Exchequer. Under version 3 authorities would be required to transfer any remaining surpluses to the

General Fund, but the benefit of those surpluses would still be enjoyed by local community charge payers.

- b. The proposals would still nonetheless be controversial. It would be said that better-off tenants were being required to pay for the rent rebates of those who were less well-off, taking on a burden which the Exchequer had previously borne.
- c. In presenting the proposals, the Government would therefore need to stress that authorities were simply being expected to charge rents at reasonable levels. Where that gave rise to a deficit, the Exchequer would provide subsidy. But where there was a surplus it was reasonable for it to be used for a housing purpose, such as the financing of rent rebates for the council's own tenants.
- d. Further work was needed on the details of the proposals. There might perhaps be a case for splitting the overall cost of the new housing subsidy between central and local tax payers as at present, but the implications of such a split for the new system of local government finance would need to be considered. Further consideration was also needed of the implications for the Public Expenditure Survey (PES) treatment of housing benefit costs.

The Prime Minister, summing up this part of the discussion, said that Ministers agreed with the proposals in your Secretary of State's paper. They also accepted his recommendation in favour of version 3 of the approach, under which local authorities would be obliged to transfer any remaining surpluses to their General Funds. The meeting recognised that these proposals might still be controversial, and that particular care would need to be devoted to their presentation. Further work was also needed on the detailed arrangements for the new subsidy system and the implications for housing benefit, including the PES treatment of housing benefit costs. Your Secretary of State, in consultation with the Social Services Secretary and the Chief Secretary, Treasury, should write to colleagues on E(LF) as soon as possible, setting out his proposals on these matters for formal clearance.

#### Implications of a scheme of Flexi-Ownership

The meeting considered the Note by the Cabinet Office circulated on 20 May. They also had before them your Secretary of State's minute to the Prime Minister of 25 May

and the Secretary of State for Wales' minute of the same date.

The Secretary of State for Wales said that the paper prepared by officials showed that the flexi-ownership scheme had the capacity further to expand home ownership much more rapidly than any other proposal which the Government had examined. It also showed that, while there would be eventual net benefits for public expenditure on almost any assumptions, the immediate public expenditure effects over the first seven years depended on the assumptions which were made about take-up by different groups of tenants and about any replacement of houses sold under the scheme. These assumptions were proper matters for a political judgement. In his view the less favourable assumptions in the paper, both on take-up and on replacements, were patently unrealistic. Take-up by those on very low incomes, who presently paid no net rent at all, was likely to be higher than assumed, because the scheme would give friends and relatives the incentive to rally round and help with repairs and maintenance. On the other hand, he did not believe that the flexi-ownership scheme would attract many tenants who otherwise have gone for the full Right to Buy (RTB), because they would forego a large part of the capital appreciation which they could enjoy as full owners. In any case, if this were thought to be a risk, the flexi-ownership scheme could be adjusted in minor ways to make it less attractive to those who could afford the full RTB. In his view therefore the more favourable figures in the paper, which suggested public expenditure benefits as early as year two of the scheme, were the more realistic ones. The scheme provided an opportunity to tackle the manifest problems of the council rented sector, to extend home ownership, and to shift wealth to a group who were not at present able to participate in the capital-owning democracy. He therefore proposed that the Government should proceed with the scheme as fast as possible.

In discussion the following main points were made:-

- a. The flexi-ownership scheme was an exciting proposal which could show very great benefits both for housing policy and in wider political terms. There was bound to be initial resistance to it just as there had been to the Right to Buy. But it would represent a major breakthrough in owner-occupation for the less well-off and ought to be pursued. No doubt there were problems but it ought to be possible to find solutions to them. Some of the problems applied equally to the Right to Buy - for instance, the cost of replacement - but had not been seen as a difficulty in that context.
- b. Further thought needed to be given to how flexi-ownership fitted in with a number of the initiatives for which the Government was legislating in the current Housing Bill. In particular, tenants' choice, Housing Action Trusts (HATs) and the Government's policies for housing associations might



be affected adversely by the flexi-ownership scheme as it was currently formulated. There was therefore a strong case against announcing the scheme during the passage of the Housing Bill.

- c. There were a number of other practical problems with the flexi-ownership scheme which had not yet been sorted out. Council housing in inner city areas, where an extension of owner occupation would be particularly welcome, was predominantly in the form of flats. However flexi-ownership seemed unlikely to be attractive to tenants of flats, because they would still need to meet service charges on their dwellings. There would also be particular problems if flexi-owners of flats did not maintain their dwellings, with implications for the upkeep of the whole block. For these reasons there might be a case for restricting flexi-ownership to tenants of houses, at least in the first instance.
- d. Flexi-ownership might also have serious implications for public expenditure during the PES period if the less favourable assumptions in the officials' paper turned out to be realistic, and particularly if there was a major diversion of RTB sales into flexi-ownership. The result could either be a higher public expenditure total or a reduction in other desirable programmes. Further examination was essential to minimise the effect on public expenditure before the scheme went ahead.
- e. X More generally, there was a danger that the scheme would attract the least well-off tenants who simply wanted to avoid paying rent. Their reaction might be to neglect the repair and maintenance of their dwellings, so that the Exchequer eventually had to step in and fund the necessary work. There might therefore be an argument for a more restricted scheme which would ensure that tenants took on real responsibilities as well as the benefits of owning part of their dwellings. One way to achieve that might be to convert rent payments into repayments for a mortgage on part of the dwelling.

The Prime Minister, summing up this part of the discussion, said that the meeting recognised that the flexi-ownership scheme was an exciting proposal which had the potential for great benefits in both housing and political terms. Work on it should go ahead. However it was clear that the first priority must be to press ahead with the manifesto policies which were incorporated in the current Housing Bill. No announcement could therefore be made during the passage of that Bill. The aim should be to have the scheme ready for when it was needed. The additional work would need to cover the implications of flexi-ownership for the Government's other housing initiatives, including tenants' choice and Housing Action Trusts, and for policy on the future funding of housing associations. It would also need to consider the implications

of the scheme for the repair and maintenance of houses currently in the local authority sector, and the problems of applying the scheme to flats. There was a danger that the scheme would give rise to additional demands for council houses if prospective tenants thought that they would stand to benefit from flexi-ownership after only a few years as tenants. To tackle these problems it might be necessary to consider changes to the scheme as currently formulated, for instance by restricting eligibility to houses in the first instance and to tenants of reasonably long standing. The important thing was to ensure that the scheme would enhance rather than detract from the reputation of the capital-owning democracy. It would also be necessary to look at ways of ensuring that the public expenditure effects of the scheme were acceptable, and in particular measures to prevent widespread diversion of RTB sales into flexi-ownership. The Cabinet Office should coordinate a further report by officials, covering all these areas, for a further meeting of the group in July. There was also a case for looking again at the proper role of housing associations in the housing market, including their role in catering for the poorest tenants. The Secretary of State for the Environment should consider this further and circulate a paper.

I am copying this letter to the Private Secretaries of the Ministers at the meeting and to the others present.

*Yes,*

*Paul*

—  
PAUL GRAY

Roger Bright, Esq.,  
Department of the Environment.

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PRIME MINISTER

minutes of  
rental  
MAGS p/egx

CHIEF SECRETARY

REC. 10 JUN 1988

Mr S Wood

Cy. Sir P. Middleton

Mr. Benson de Philippe

Mr. Edwards, Miss Perse

Mr. Timbrell, Mr. Potter

Mr. McIntyre, Mr. Bellense

M/Call

**FLEXI-OWNERSHIP/RENTS INTO MORTGAGES**

At our meeting on housing policy on 26 May, I mentioned that my Department has been working for some time on proposals for converting rents into mortgages (RTM). These have a good deal in common with the flexi-ownership proposals which we have been discussing; but they are sufficiently different to offer solutions to the problems which we have identified.

I have held back from introducing these proposals into the discussions, in order that we could concentrate first on the broad principles of the exciting step forward in housing policy which we are considering. However, it might be helpful now to include my proposals within the scope of the further consideration by officials which we have commissioned.

One of the most important aspects of my proposals is that they take as their starting point the extension of the principles of the right to buy, in order to produce a scheme which will bring into home ownership those who are nearest the margin of affording it at present. I did not conceive of it primarily for tenants on housing benefit, although it is certainly capable of extension, at least to tenants on partial housing benefit. It would avoid the problems which arise from targeting a scheme primarily on those tenants who are least well-off.

Another important consequence of working outwards from the right to buy is that I have been able to give particular attention to the need to avoid diverting tenants from the right to buy. RTM is indirectly a promotional

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device for the right to buy, in relation to those tenants who have not yet realised that ownership would be no more expensive than renting. For those who are paying rents which are only marginally less than the payments required for normal right to buy purchase the relative disadvantages of RTM should be sufficiently clear to steer them towards the right to buy. I am confident that RTM would have its main effect on precisely the group which we most need to help next: those who cannot afford the right to buy but have the aspiration to own their homes and sufficient means at least to enable them to exercise the attendant financial responsibility for its upkeep.

An important feature of RTM is that tenants' decisions between the right to buy and the new arrangements are of much less consequence in public expenditure terms than decisions in relation to the form of flexi-ownership which we have been discussing. RTM is designed to improve the flow of capital receipts which are so important to my Housing programme. There is no reason in principle why it should not be financed by the building societies and banks to the same very large degree, well over 90%, as the right to buy has been in Scotland.

RTM offers a means of tackling our concerns about the continuing maintenance of the stock; and, although problems in relation to flats are not the same in Scotland as in England and Wales, I think that RTM lends itself naturally to the resolution of those problems. Essentially, one can adjust the rent figure which is taken as the starting point of the calculation to ensure that the tenant retains a proportion of the amount paid now in rent, in order to allow him to pay for the costs of repairs. This principle appears capable of extension to address the problem of service charges in flats.

The interaction of RTM with our other important policies, such as Tenants' Choice, will still need to be thought through. I believe that the difficulties would be much less than would arise from the unmodified flexi-ownership proposals.

I attach a note summarising the key features of the operation of RTM.

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**CONFIDENTIAL**

I am copying this minute to Nicholas Ridley, Peter Walker, John Moore, John Major and William Waldegrave; and to Richard Wilson (Cabinet Office) and Peter Stredder (Policy Unit).

MR

**M R**

9 June 1988

**CONFIDENTIAL**

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RENTS INTO MORTGAGES (RTM)

1. The starting point of the scheme is that the tenant's existing rent payment is taken as the basis of the calculation of a loan for a corresponding capital sum (taking account of MIRAS). For example a rent of £89 per month is equivalent to the repayments of a loan of £11,290 (assuming an interest rate of 11% and a term of 25 years). This loan figure is the RTM value.
2. There is a degree of choice about what figure one takes as the existing rent payment. One option is to define it as the rent payment net of the cost of continuing expenditure on repair and maintenance. This could be calculated as a standard deduction, either for the stock as a whole or for various house types eg flats. It might vary from area to area. The effect of any deduction would be to reduce the RTM value; but to leave the tenants with an adequate sum from within his existing budget to pay for normal repair and maintenance costs, which should help ensure that the house is properly cared for. For example, if the deduction for average annual repair and maintenance costs were £240 per year, a tenant with a rent of £89 per month would have £69 of that counted as the loan repayment. The RTM value would be £8,760, rather than the £11,290 produced by the full rent.
3. The scheme is designed primarily for tenants not on housing benefit. A modification of the scheme for tenants on housing benefit would be to limit the rents taken into account for calculating the RTM scheme to the amount met by the tenant net of benefit.
4. The RTM calculation would be carried out for all eligible tenants. In parallel, an estimate of the normal right to buy (RTB) discounted selling price would be calculated for each eligible tenant (to the extent possible from the information about the tenant available to the selling authority; and probably using indicative valuations derived from past RTR sales of relevant house types in the area). It would not be necessary to wait for applications from the tenant before undertaking these calculations.

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5. If a comparison of the RTM value were less than the indicative RTB price, the tenant would then be offered the opportunity to participate in the RTM scheme. If the RTM value were larger than the RTB price the sale would be processed as a normal RTB sale, subject to the willingness of the tenant. For example, an RTB sale might arise where the RTM value was £8,760 but the indicative RTB price was £8,000 (which would be the indicative RTB price in a case where the full 60% discount was assumed to be due to a middle aged tenant, in relation to a house likely to be valued at about £20,000). An individual valuation of the house and full collection of discount information etc would be carried out at this stage. RTM would not be available.

6. If the tenant wishes to participate in the RTM scheme, full ownership would be transferred to tenant at a price (RTM price) equal to the RTM value. However, in return for receiving full ownership at less than the RTB price, the purchase would be subject to a charge (RTM charge) on the property related to the difference between RTB and RTM prices. This might lead to the tenant being required to make a payment, in the event of resale.

7. The RTM charge would initially be for the full amount of the difference between the RTB and RTM prices. It would reduce annually by an amount calculated on the basis of normal RTB discount rules (ie one per cent per year of the market value at the time of purchase for houses, 2% for flats). During the first 3 years following sale, normal RTB discount clawback rules would apply, in addition to the RTM charge. After 3 years, only if the tenant moved before the charge is extinguished would any obligation arise to make a payment out of the selling price (except, of course, the normal repayment to the building society/bank of any unrepaid portion of the loan). The death of the tenant would extinguish the charge, in line with the discount clawback arrangements under RTB, thus encouraging relatives to assist elderly people out of housing benefit in order to qualify for RTM.

8. It may be helpful to exemplify the proposals in paragraph 7. In a case where a house is valued at £25,000 and has an RTB price of

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£10,000, based on 60% discount, and an RTM price of £8,760, a tenant would repay:

8.1 the full difference between valuation and RTM price if he resells within a year ie £16,240;

8.2 two-thirds of the discount (40% of valuation) and the difference between the RTB and RTM prices minus one per cent of the valuation if he resells after between one and 2 years, ie £10,990;

8.3 one-third of the discount (20% of valuation) and the difference between the RTB and RTM prices minus 2% of the valuation if he resells after between 2 and 3 years, ie £5,740;

8.4 the difference between the RTB and RTM prices minus 3% of the valuation if he resells after between 3 and 4 years, ie £490

8.5 the difference between the RTB and RTM prices minus 4% of the valuation if he sells after between 4 and 5 years, ie £240;

8.6 nothing if he sells after 5 years.

9. The tenant would receive a loan for the amount of the RTM price. From the tenants' point of view this would be of little practical significance, since the loan repayments would be related to his existing rent payments. From the selling authority's point of view, however, it provides a means of realising capital receipts, provided the loan comes from the private sector. The availability of loans for RTM would be arranged with building societies and/or banks, in line with existing arrangements negotiated by many authorities in the context of RTB. Since no RTB sales would be foregone, the flow of capital receipts would be substantially higher than at present.

10. It would be possible to operate the scheme administratively for tenants of Scottish Homes and, possibly, the new towns. Legislation would be necessary to make RTM available to all local authority tenants.

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FROM: JILL RUTTER  
DATE: 13 June 1988

MR S N WOOD

cc:  
PS/Chancellor  
Sir Peter Middleton  
Mr Anson  
Mr H Phillips  
Mr Edwards  
Miss Peirson  
Mr Turnbull  
Mr Potter  
Mr McIntyre  
Mr Betenson  
Mr Call

**FLEXI-OWNERSHIP/RENTS INTO MORTGAGES**

The Chief Secretary has seen Mr Rifkind's minute to the Prime Minister of 9 June.

2 He reports that Sir Robin Butler and the No. 10 Policy Unit both think that Mr Rifkind may be on to a good scheme here which could represent an appropriate compromise with ~~the~~ the Walker proposals on Flexi-Ownership.

3 The Chief Secretary would be grateful <sup>there</sup> for your view on the scheme. His own view is that/do appear to be some attractions in it. If you share that view he thinks that there might be merit in putting <sup>an</sup> early minute to that effect.

JILL RUTTER  
Private Secretary

CONFIDENTIAL

FROM: S N WOOD  
 DATE: 14 June 1988

PS/CHIEF SECRETARY

cc PS/Chancellor  
 Sir P Middleton  
 Mr Anson  
 Mr H Phillips  
 Mr Edwards  
 Miss Peirson  
 Mr Turnbull  
 Mr Potter  
 Mr McIntyre  
 Mr Betenson  
 Mr Call

## FLEXI-OWNERSHIP/RENTS INTO MORTGAGES

Your minute of 13 June recorded the Chief Secretary's view that, if officials agreed that there were attractions in Mr Rifkind's scheme set out in his minute of 9 June to the Prime Minister, there might be merit in putting in an early minute to that effect.

2. Mr Betenson's submission below argues that it would be premature to go into print on this. Mr Rifkind's proposal is on the face of it significantly better from the Treasury viewpoint than Mr Walker's. But there may be hidden snags that would emerge only on further study in the Working Group. Moreover, DOE, who have so far been helpful to us on the Walker proposals, have agreed along with others represented in the Working Group not to respond at Ministerial level at this stage. There is a risk of upsetting this alliance if we move too soon, before the Working Group has had a chance to tease out the implications for other DOE housing policies.

3. I therefore agree with Mr Betenson's advice that it would be preferable for the Chief Secretary not to minute on this. But we should certainly report his positive reaction towards the helpful aspects of the scheme in the official level discussions, on which the Policy Unit representative will no doubt keep the Prime Minister informed.

SW  
 S N WOOD

CONFIDENTIAL

FROM: M C BETENSON

DATE: 14 June 1988

- 1. MR WOOD
- 2. PS/CHIEF SECRETARY

*Note attached.*  
*SW 14/6*

cc Mr Phillips  
 Mr Edwards

FLEXI-OWNERSHIP/RENTS INTO MORTGAGES

We spoke last week about the Secretary of State for Scotland's minute to the Prime Minister of 9 June. You subsequently mentioned to Mr Wood that the Chief Secretary was considering the possibility of writing now in support of Mr Rifkind's proposal as a preferable alternative to flexi-ownership.

2. I am not sure that the tactical advantages of writing now would be sufficient to outweigh the risk of finding our negotiating position undermined should a financial appraisal of Mr Rifkind's proposal prove adverse. It might also cause Mr Walker to cry foul, given our insistence on the importance of a full assessment of his own scheme before judgements are made. A further difficulty is that I understand the Prime Minister is being advised to let the Cabinet Office Working Group consider Mr Rifkind's proposal in detail alongside the further work on flexi-ownership and an intervention now would invite further correspondence before that work is presented to the Prime Minister.

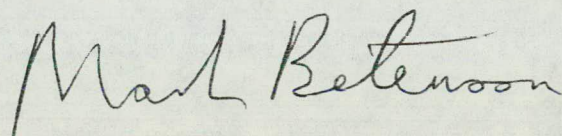
3. On the face of it, Mr Rifkind's proposal looks attractive. It works with the grain of the right to buy and appears to safeguard receipt levels. It would also avoid encouraging irresponsible home ownership by those who simply want to avoid paying rent. But there are some awkward questions which we need to ask. In particular, how will the scheme look in NPV terms (where flexi-ownership proved surprisingly robust) when rent into mortgage (RTM) purchasers will be offered additional equity 'gifts' beyond the standard right to buy discount (the flexi-ownership proposal actually takes away some of the discount)? The equity will be passed to RTM purchasers by reductions in the charges held on their properties of one per cent a year

**CONFIDENTIAL**

(2 per cent for flats) in the same way that right to buy discount builds up, but without any upper limit on the amount given away.

4. Another question to ask is whether RTM purchasers <sup>would</sup> attract the same percentage of private mortgage finance as do right to buy purchasers - only privately financed mortgages provide additional initial receipts. As I read the Scottish scheme at present, it would attract all potential right to buy purchasers whose rent payments are less than the mortgage repayments required under traditional right to buy, since the equity which the higher mortgage would purchase would be gifted to them anyway. So the receipts flowing in from the number of sales already anticipated over the next few years could be substantially reduced, with an uncertain offset from newly generated sales.

5. The Cabinet Office Working Group will be reporting in mid-July and I shall, of course, have the opportunity to ensure that the issues noted above are addressed in that report. In the circumstances, my advice to the Chief Secretary would be not to write now. But the Chief Secretary may wish to discuss the issues further.



**M C BETENSON**



10 DOWNING STREET  
LONDON SW1A 2AA

CHIEF SECRETARY	
REC	20 JUN 1988
TO	Mr Sussler
FROM	ex Sir Michael...
	Mr Anson, Mr Phillips
	Mr Edwards, Miss Pen...
	Mr Tomkins, Mr Potter
	Mr McIntyre
	Mr Betenson
	Mr Gail
	Mr Gray

17 June 1988

From the Private Secretary

Dear David,

FLEXI-OWNERSHIP/RENTS INTO MORTGAGES

The Prime Minister was grateful for your Secretary of State's minute of 9 June.

She believes it would be helpful for these latest ideas to be included in the further work to be carried out by the Official Group under Cabinet Office chairmanship. She hopes it will be possible for that Group to put forward a set of proposals for the next meeting of the Ministerial Group which best meets the guidelines in her summing up of the 26 May meeting.

I am copying this letter to Roger Bright (Department of the Environment), Jon Shortridge (Welsh Office), Geoffrey Podger, (Department of Health and Social Security), Jill Rutter (Chief Secretary's Office), Helen Ghosh (Office of the Minister for Housing) and Richard Wilson (Cabinet Office).

Yours,  
Paul

PAUL GRAY

David Crawley, Esq.,  
Scottish Office



MP

FROM: JILL RUTTER

DATE: 17 June 1988

MR S N WOOD

cc:

2- PS/Chancellor  
Sir Peter Middleton  
Mr Anson  
Mr H Phillips  
Mr Edwards  
Miss Peirson  
Mr Turnbull  
Mr Potter  
Mr McIntyre  
Mr Betenson  
Mr Call

**FLEXI-OWNERSHIP INTO MORTGAGES**

The Chief Secretary has seen your minute of 14 June covering a minute from Mr Betenson. The Chief Secretary agrees with your advice and Mr Betenson's that he should not minute at this stage.

JILL RUTTER

Private Secretary

RESTRICTED

*I don't think there is any way to agree with X. I do need - esp. for planning approach. No planning constraints. This is something that can be done. Speed up the process. Non-contractual arrangements.*

CHANCELLOR

FROM: A G TYRIE

DATE: 29 JUNE 1988

cc Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir T Burns  
Mr Cropper  
Mr Call

LACK OF SUITABLE HOUSING IN THE SOUTH-EAST AND THE BALANCE OF PAYMENTS

I went to an IAE lunch a few days ago, on planning.

In addition to all the well rehearsed arguments which point to the need to relax planning in the South-East someone at the lunch argued that planning restrictions have an adverse effect on the balance of payments. Some potential exporters find themselves unable to set up in the South-East and export business activity is lost. Furthermore, there is some evidence that companies in the South-East are equipped in a way which makes them more likely to penetrate export markets (hardly surprising since they are nearer the ports). Their expansion is restricted. I attach a page from a study done at the University of Reading that touches on this.

So perhaps 'trickle down' is bad for the balance of payments. What does the Professor think?

As for the housing boom generally, there are only two things we can do: reduce demand, which in practice means putting up interest rates (because we can't meddle with pay, tax or mortgage interest relief) or increase supply, which in practice largely means backing Nicholas Ridley to the hilt on planning.

X/

M. May  
pp A G TYRIE

or feel they could do better than their employers. Obviously there are very great difficulties allocating individuals to categories since most motivated by positive ideas would have some knowledge of markets and those with a detailed knowledge of where they could sell would also be positively motivated. Nevertheless the categorisation gives a useful insight into the success of South East small firms. If individuals are motivated to start up due to knowledge of specific markets it means that they may have an advantage over other firms that have to devote time and resources to finding or creating custom. This leads to greater sales on start up than in firms where target markets were not specifically identified. Possibly this reflects levels of demand at final and intermediate levels which are higher in the South East. Alternatively it is part of a basic business awareness based on experience and culture.

Table forty shows that the ranks of the unemployed and the self employed are the most fruitful sources of entrepreneurship. Thus it is highly probable that high rates of firm formation recorded since the late seventies are to a high degree related to rising levels of unemployment. Push factors probably predominate amongst the unemployed while pull factors are important with the self employed. In the South East, however, the ratio of unemployed and self employed founders to the proportions of the total population unemployed and self employed are much higher than in the North East and West Midlands. That is these sectors are much more productive of entrepreneurs in the South East than other study regions. The proportion of founders coming from paid employment is far higher in the North East and West Midlands than the South East. This probably reflects the fact that paid employment prospects in terms of salaries and security are much greater in the South East. Effects of economic decline are felt even by those in employment in the peripheral regions as their chances for advancement are reduced. The high levels of self employment amongst South East entrepreneurs probably explains the relative numbers stating with a knowledge of specific markets. Those in self employment have a high level of customer and supplier contact and therefore are in the best position to spot new opportunities for trade and manufacture and service.

It has been argued that the management of new firms is strengthened when more than one founder is involved. Table forty one shows that sole traders are more common in the North East and the West Midlands though there is not a great difference between regions. The difficulty is that number of founders may explain turnover but equally the reverse may be true. That is sales in the West Midlands and North East may not be sufficient to support a larger number of founders per firm.

#### Some Preliminary Conclusions

One aim of this survey was to assess the extent of regional variations in new business performance. Theory and some evidence suggested that high growth new firms would be concentrated in the South East. The data on assets, turnover and profits confirmed this to be the case. New ventures in the South East employ more capital and generate more sales than those in the North East by a factor of two and in the West Midlands almost by a factor of four. Firms in the South East even in their earliest years are more likely to break out of local markets by selling regionally, nationally and even internationally. Furthermore new manufacturing firms in the South East are more likely to use sophisticated equipment, have a range of products and produce sophisticated goods.

It has been suggested that the quality and orientation of entrepreneurs in the South East is the prime cause of variations in business performance. Though the data confirms this in part the differences between regions are not great. Southern entrepreneurs are older, proportionally slightly more are highly educated and have managerial or technical skills. Differences between regions in business experience is not great except that fewer founders in the West Midlands have small firm backgrounds. Business motivation is similar in the South East and North East but notably low in the West



X PA?

FROM: MARK CALL  
DATE: 30 JUNE 1988

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir T Burns  
Mr Cropper  
Mr Tyrie

NOTE

PLANNING AND THE BALANCE OF PAYMENTS

X I have seen Andrew Tyrie's minute of 29 June. I have some deeply unsound views of the issue he raises, having for long had a soft spot for the Green Belt.

2. The survey to which he refers indicates that firms in the South East have a higher propensity to export than those elsewhere. I don't think proximity to the Channel ports is an adequate explanation of this. I would imagine that the lower costs of operating a business in the North (eg labour costs, and accommodation costs) would outweigh the extra costs of transportation for many businesses. After all Japan isn't exactly next door to the markets it dominates in Europe. Air links from the Midlands and the North to Europe are improving rapidly - traffic at Manchester Airport grew by 40% last year. No doubt rail links could be better. Relaxing planning in the South East isn't the only answer to such survey findings. In fact they could be used to argue that what is needed is an effective rail by-pass of London, improving connections between the North and the Channel tunnel. I had better stop on this line of thinking before I expose myself as a closet infrastructure loony.

3. Like the article attached to Andrew's note, I think the regional variation in their propensity to export may have more to do with the quality and experience of entrepreneurs and the extent to which the new "enterprise culture" has reinvigorated the business community. From my experience in consulting, the low propensity to export of many small and medium sized UK companies, especially traditional firms outside the South East, has more to do

with the fact that they have never given serious thought to exports. Many consider sales to London exports. All of these points can be addressed. While we are naturally concerned about DTI hype, some good may just come out of the Enterprise Initiative. Regional business education can also help. Finally, there is some evidence of the venture capital industry becoming more adventurous in the regions outside the South East.

4. Despite the above cri de coeur, I am all for easing unnecessarily rigid planning restrictions. But in the public mind the "rape of Berkshire" could become the "rape of the South East" if we push too hard too fast. In that event we would be handing a plum platform to Mr Heseltine.

*Mc*  
MARK CALL

FROM: P J CROPPER  
DATE: 4 July 1988

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir T Burns  
Mr Tyrie  
Mr Call

*This (or something like it) is what I'm opposed to. I am not sure.*

PLANNING AND THE BALANCE OF PAYMENTS

*No BGS counter not... what we really want*

It does not seem to me that we need to start raping Berkshire.

2. Within the M25 ring there are several hundred square miles of derelict ground, depressed looking meadows and low density worn-out housing (a good deal of it in the form of 1930s urban sprawl).

3. There are hundreds of thousands of household units that would be better suited by living in decent rented apartment blocks (if there were any) than in conventional semis and terraces.

4. There are hundreds of institutions ready to finance the building of apartment blocks, complete with decent landscaped grounds.

5. All that prevents this happening is mortgage interest tax relief.

6. Perhaps, in order to make some progress, we should introduce a personal rent tax relief on payments of up to £3,000 a year. This would place people living in rented accommodation on a par with home owners.

7. This way we could increase the amount of housing stock, improve labour mobility, and actually create space for industrial activity. London is not the only city open to this treatment.

*phases of... on... 75,000 a yr. 1985... 750,000 to 725,000*

*PJ*  
P J CROPPER



FROM: S P JUDGE  
DATE: 6 July 1988

PS/CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
Sir Terence Burns  
Mr Cropper  
Mr Tyrie  
Mr Call

**PLANNING AND THE BALANCE OF PAYMENTS**

The Paymaster General has seen Mr Cropper's minute of 4 July.

2. He thinks that his paragraph 3 ("There are hundreds of thousands of household units that would be better suited by living in decent rented apartment blocks (if there were any) than in conventional semis and terraces") needs more justification than assertion. His conventional understanding has been that the private rented sector's clients were the young, the elderly and the transient: he wonders if this is the category that the Commander is thinking of.

S P JUDGE  
Private Secretary



FROM: P D P BARNES  
DATE: 6 July 1988

PS/CHANCELLOR

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
Sir T Burns  
Mr Cropper  
Mr Tyrie  
Mrs Call

**PLANNING AND THE BALANCE OF PAYMENTS**

The Economic Secretary has seen Mr Cropper's minute of 4 July. The Economic Secretary thinks that Mr Cropper's suggestion is tantamount to advocating the rape of Finchley. The hottest political issue there is the building of blocks of apartments in place of large Edwardian houses. The Economic Secretary thinks that the Prime Minister is very much aware of local feeling.

*fb*

P D P BARNES  
Private Secretary



~~Handwritten red scribble containing illegible text and numbers.~~

1. MR WOOD  
2. CHIEF SECRETARY

SW

7viii

FROM: M C BETENSON  
DATE: 7 JULY 1988

CC PS/Chancellor  
PS/Sir P Middleton  
Mr Anson  
Mr Byatt  
Mr Phillips  
Mr Edwards  
Mr Odling-Smee  
Miss Peirson  
Mr Spackman  
Mr Turnbull  
Mr MacIntyre  
Mr Potter  
Mrs Holmans  
Mr Ramsden  
Miss Haskins  
Mr Call  
Mr Tyrie

pr  
prg  
BF 11/7  
13/7  
18/7  
BF 20/7

#### LOCAL AUTHORITY HOUSING AND FLEXIOWNERSHIP

1. This note is intended to keep you up to date with the work being carried forward by the Cabinet Office group which has been charged with preparing papers for the Prime Minister's 21 July meeting on flexiownership and Mr Rifkind's Rents to Mortgages (RTM) proposal. No action is required. The Cabinet Office group should report by the end of next week or the beginning of the week following and I will submit briefing at that stage.

#### Developments

2. We are still awaiting a full financial appraisal of: Mr Rifkind's proposal, a variant of that proposal which DOE are likely to float, and a revised version of flexiownership approved by Mr Walker. The Treasury attitude to all three schemes must in large part depend on the results of those appraisals but the paragraphs below set out briefly the differences between the three approaches and summarises the considerations we will need to bear in mind in judging their relative merits.

#### Rents to mortgages

3. Mr Rifkind's scheme would offer all local authority tenants the chance to use their existing rent payments (minus £5 a week each, which tenants would retain to fund repairs) to support private sector mortgages. Tenants would use their mortgage finance to purchase title to their properties. The change from rents to mortgages would remove entitlement to housing benefit, so few on HB would be able to take up the scheme (we are still considering the extent to which income support would normally be available to HB tenants switching to ownership). The RTM purchasers would own equity in the properties equal to the mortgage plus their standard right to buy (RTB) discount. The discount would however, need to be repaid, in gradually reducing proportion, if the new owners sold their properties within 5 years of purchase. In addition, the new owners would receive further gifts of equity to take their share ultimately to 100 per cent of the value of their property. The additional equity would accrue at the same rate that RTB discount accrues - but unlike RTB discount, it would not be subject to an upper limit.

4. Mr Rifkind's scheme suffers from the substantial disadvantage that almost all tenants who might otherwise opt for conventional right to buy would be likely to switch to it, reducing receipts both initially and over time. This is because on average at present rent levels, the mortgage purchased with payments equivalent to rent would be much less than the mortgage needed to purchase under conventional RTB. And in Mr Rifkind's scheme the difference between those two mortgages would be given to the tenants over a relatively short period.

5. In Net Present Value (NPV) terms, that makes it likely that on all but the most optimistic assumptions about take-up from tenants currently on HB, the proposal would perform badly against conventional RTB. But the short term impact on sale receipts might not be too adverse, since although most tenants could be expected to opt for the cheaper RTM against the more expensive RTB, large numbers who at present are not taking up RTB might be drawn by the very generous terms of RTM.

6. For the Treasury, the merits of the scheme must depend on four considerations:

- i. If we wish to encourage home ownership by more than the current RTB arrangements, should we give most weight to the medium term NPV advantages to or shorter term buoyancy in receipts?
- ii. Should we accept the sale of public assets at an even greater discount than RTB?
- iii. Is our concern about the ability of those now on HB to maintain the condition of their properties if they switched to flexiownership (and the potential consequent need for future public support) sufficiently well grounded to make compromise on a scheme which does not allow for a significant move into ownership within that group essential?
- iv. Could we accept the scheme for Scotland only, where initial financial appraisal suggests that the additional discount under RTM would be relatively small (because rents in Scotland are higher in relation to property values), and where conventional RTB is significantly less successful than in England and Wales.

#### The DOE RTM Variant

7. DOE have yet to work up a full proposal but, briefly, they would hope to adopt the broad outline of the Scottish scheme but to reduce switching to RTM from RTB by lowering the initial discount offered; thereby lengthening the period required to acquire 100 per cent ownership of properties. Any purchasers who sold their properties relatively quickly would not be able to keep the full discount to which they would have been entitled under the right to buy.

8. The advantage of the DOE approach is that the initial loss of RTB discount could be set at whatever level Ministers might decide would be necessary to minimise switching from conventional RTB (and thus preserve and possibly increase



initial receipts). The disadvantages are that (although it has not yet been properly appraised) it may perform little better in NPV terms than an unadulterated version of Mr Rifkind's proposal and by weighting the benefits to purchasers against subsequent sales, when compared with RTB and flexiownership in the medium to long-term, the approach might actively discourage mobility. For the Treasury, the first three considerations mentioned in paragraph 6 above might therefore apply to the DOE approach as much as to unamended RTM.

#### Flexiownership

9. Mr Walker has now accepted a number of changes to his initial proposal which help to reduce some of the concerns we initially expressed. First, in order to discourage switching from RTB he has agreed that the discount on any property sold under flexiownership should be 10 percentage points less than the equivalent RTB discount. Secondly, to help reduce the impact on initial receipts, he has agreed that those who meet from their own income amounts of rent above £10 a week should be required to take out private sector mortgages with equivalent weekly repayments, and to purchase equity with those mortgages. And thirdly, in order to discourage people from applying for council tenancies simply as a route into flexiownership, Mr Walker has agreed to a minimum eligibility requirement of 5 years tenancy (as opposed to 2 under RTB).

10. These changes are helpful. But we will need to see the full financial appraisal before taking a view on the potential impact on the (originally very favourable) NPV of the scheme, and the (originally very damaging) impact on receipts over the next few years. Nevertheless, in terms of reducing dependency on HB, encouraging widespread home-ownership, and other economic advantages, such as more labour mobility, flexiownership is likely to out-perform either of the RTM options. The potential disadvantages for the Treasury are threefold:

i. It may encourage an essentially bogus form of ownership among individuals who cannot really afford (and do not wish to accept) the attendant responsibilities: it may therefore lead to a deterioration in the housing stock and longer-term public costs. Against this the financial appraisal will attempt to take account of longer-term costs and is still likely to give flexiownership a fair wind.

ii. It may bring pressures for substantial public investment in replacement social rented housing (though again the financial appraisal will make very substantial allowances for this).

iii. The effect on initial receipts is very difficult to forecast. Despite Mr Walker's amendments, you may be faced with a large public expenditure bill from lost receipts in the short term.

11. In addition there are the purely political points that: flexiownership, by bestowing RTB discounts on tenants at no cost to them, may create enormous resentment amongst existing RTB buyers, and ... owner occupiers more widely; and

flexiownership would cut across Mr Ridley's own local authority housing policy initiatives, eg: tenants choice, Housing Action Trusts, and wholesale local authority housing disposals.

Conclusion

Mr Walker's watered-down

12. It seems likely that flexiownership will emerge from the current exercise as more attractive to the Treasury than RIM, and to show substantial positive NPV possibly at the cost of short term loss of receipts. But that will be on the basis of formal financial appraisal using some pretty heroic assumptions. The risks, both in NPV terms and in short term capital receipts will be large. However, the sensitivities surrounding flexiownership are also likely to show it as relatively robust in NPV terms for all but the most extreme risks.

13. Given this background, your own assessment of flexiownership and other options may need to focus in Treasury terms on the extent to which you can risk short term receipts, which are likely to be of increasing importance in this year's PES round if early figures on RTB applications are a guide. But, more fundamentally, this is largely a matter of political judgement of the extent to which financial and social risks should be taken to achieve the goal of wider home ownership and reduced dependency. The further work of the official group will primarily be aimed at helping inform that judgement.

pp Gina Haslins  
M C BETENSON



Mr Betenson

Attached is a draft Letter for the Chancellor to send to Mr Ridley on Housing: Supply Side Measures.

We would be grateful for your comments before it is typed up in its final form.

Mr Hoare  
Mr Cotmore  
The Chancellor's office have belatedly sent back a revised draft of this letter. In Mr Hoare now content with 'X' and Mr Cotmore with 'Y'. The Chancellor's office would like clearance by close today. In regard.  
Mark Betenson 7/VII

Mr Betenson

You will see I have offered an amendment to the para at Y. One of the reviews is already underway and the terms of reference to be agreed are to be discussed at NISC 133 next week.

OK 7/7



~~Tony D~~

Pat H typed up amended draft at X last night, but for some reason can't print off. Cd you get Michele to run off, proof-read, then send ~~to~~ <sup>letter</sup> (just the draft) ~~for~~ to Betenson for his comments. [I am holding up some advisors' notes until ~~to~~ I can put this in with it ~ it has been sitting in a tray for ages]

Thanks

M.



→ Mr Betenson

We spoke. V. sorry that this has got left for so long.

You agreed to have a look & see if amendments were sensible. Can you also

clarify passage on V.O.

so it meets the Ansonian point. And let me have back if poss for wk-end, so I can tie this up one way or other.

Thanks for rescuing!

Muir W.

CONFIDENTIAL

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

MP

~~BF 14/7~~~~18/7~~

(not sent)

**HOUSING: SUPPLY SIDE MEASURES**

We would benefit from some supply side measures on housing. I have some suggestions which you might like to consider.

First, could we relax the planning laws? For example house owners could be permitted to sub-divide residential property into two separate dwellings without any requirement for planning permission. This would offer some encouragement to the expansion of the stock of dwellings available, particularly in inner city areas. It would provide an incentive for more efficient use of existing assets, might assist the elderly in realising frozen capital, and might also help revive interest in private renting by small landlords.

A second initiative we might consider could be seen as building upon your recent appointment of consultants to study the scope for housing development in five areas of East London. That study is not, of course, aimed solely at publicly-owned land, but it occurs to me that one means of promoting sales of unused public land, and its subsequent development, might be to extend the consultancy approach rather further. I should be interested in your views. As you know, John Major will be pressing colleagues on the need to dispose of unused or underused land and housing in the current

Survey and an initiative along the lines I suggest could be seen as supplementing that work.

Third, can we force local authorities to release empty dwellings? Given the expanding role which we envisage for the Housing Corporation and housing associations generally, one option might be to transfer confiscated dwellings to them for renovation and future renting, or for sale into owner-occupation. The Housing Action Trusts which you are planning to set up might also have a role here. I can see that there might be considerable opposition for confiscation but if it were put forward as a measure to combat homelessness as well as to encourage efficient use of stock, the presentation of the policy could be eased. At the same time we will need a vigorous review of empty dwellings in central government hands. The idea of confiscation has been mooted for several years. I think the climate may well now be right for action.

Fourthly, like you, I have been concerned by the relatively small proportion of tenants of council flats who have taken up the Right to Buy, despite improvements in discounts. I think it could be helpful if we were to review the extent to which obstacles to sales are institutionalised in the valuation process for flats. If tenants are not taking up the option of purchase, at least one of the reasons for their decision must be that they themselves do not consider the flat they occupy to be worth the valuation likely to be placed on it (even with discount). I understand that the valuations of relatively few flat sales are examined by District Valuers. The majority are left to local authority valuers to assess. We might therefore consider a detailed review of the approach local authority valuers take and the extent to which existing statutory requirements may place constraints on the number of flat sales.

Finally, I think a thorough review of planning and building regulations should be able to throw up a number of them which can be

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safely abolished. Stage two of the long-standing review is underway. I think this is something which would benefit from close Ministerial and EDU involvement. I understand that the review has already been discussed in MISC 133.

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

N.L.





Ch

In my view, one of the faults in the present system is that when land is released for housing, it is always in sizeable blocks on which developers build as many terraced houses as they can. There is a strong case for doing more to release land for individual (no doubt up-market) houses, which would mostly be custom-designed & for less ugly

AVT

*Play*

*Ch/ I have spoken to PS/CST about X. Mr T will not be forgotten in future. AGT is busy sharpening*

FROM: A G TYRIE

DATE: 8 JULY 1988

CHANCELLOR

cc Chief Secretary  
Mr Cropper  
Mr Call

*up officials draft for you to send to Mr Ridley advocating one into two schemes etc. [Not tough enough, he says]*

RURAL HOUSING

*"planning + balance of payments" behind. See also minutes on*

I have just discovered that the Prime Minister held a meeting on this on 9th June, minutes attached\*. I was not aware of this meeting 'till today.

*see my answer*

X

It looks as if some pretty feeble decisions have been taken. Mr Ridley's laudable village housing initiative has been neutered. After it William Waldegrave briefed the Press that housing built under the villages initiative will come out of existing structure plans. The whole purpose of launching this initiative was to get more housing built. The benefit of it has therefore been lost.

Secondly, it seems that some general commitment has been made to legislate for a radical reform of the planning system in 1990. Nothing would be more calculated to restore the fortunes of the 'Alliance' (or whatever they have amalgamated themselves to by then), than to tamper with the planning system just before an election. If we are going to make a frontal assault on the planning system, or at least if the tampering is going to result in more housing rather than less, it has to be done now. When we discussed this a few months ago your view was that a frontal assault at any time would probably be counter-productive. That may be right, but this plan looks even more unwise.

Separately, I happened to see a circular on local plans recently issued by the Department of Environment, also attached\*. It is only a consultation document. One aspect of it is very concerning: it would give local planning authorities the right to consider the need for 'phasing in the light of local circumstances'. Hitherto, we have always resisted phasing. At the end of the day, less housing is built. If we permit phasing we will be taking a significant step backwards.

Everyone is agreed that the rise in house prices is bad news. All the options to reduce demand significantly are off the agenda. Interest rates can't be set to limit housing demand. MIR is inviolate. Credit controls are both distortive and, possibly, unworkable.

That leaves us with one option: increase supply. There will never be a better opportunity than now to do that, with the centre ground in tatters, a hundred seat majority, and a massive housing boom about which even some of its beneficiaries, even if only for their children's sake, are becoming a little uneasy.

AGT.

A G TYRIE

\* TOP COPY ONLY.

CHIEF SECRETARY	
REC.	10 JUN 1988
Mr. C. H. P.	
Mr. A. J. Langdon	

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Mr. C. H. P.  
No action, I think.  
10 DOWNING STREET  
LONDON SW1A 2AA

Andrew

In view of 'x',  
I'd be grateful  
if you'd let me

S.W. 1276

have this  
back.

From the Private Secretary

10 June 1988

Dear Roger

RURAL HOUSING

The Prime Minister held a meeting at No.10 Downing Street on 9 June to consider rural housing issues. I should be grateful if you and copy recipients would ensure that this record of the discussion is shown only to those with an operational need to see it.

Present were the Secretary of State for the Environment, the Secretary of State for Employment, the Secretary of State for Trade and Industry, the Chancellor of the Duchy of Lancaster, the Minister of Agriculture, Fisheries and Food, the Lord President of the Council, the Lord Privy Seal, the Chief Secretary, Treasury and the Paymaster General. Sir Robin Butler and Mr. A.J. Langdon (Cabinet Office) were also present.

The Secretary of State for the Environment said that his minute to the Prime Minister of 29 April proposed the publication, introduced by an answer to an arranged Parliamentary Question, of a paper on housing in rural areas and of a discussion paper on village housing and new villages. These proposals were in accordance with the meeting that the Prime Minister had held on 9 March, and the second of the papers had been revised to take account of a number of points made at that meeting. The need for some further provision of housing in rural areas was becoming steadily clearer, and the paper on village housing and new villages simply set itself the modest aim of stimulating discussion of the suggestion that the expansion of existing villages, and the creation of some new ones, must have some place in meeting that need. The complementary paper on rural housing had similarly modest aims. The success of the right-to-buy policy and the pressure on rural housing prices meant that there was now a perceived special need for low-cost housing for rural workers. The funding of the National Agricultural Centres Rural Trust to establish new rural housing associations would enable the Housing Corporation to permit 300 approvals for rural units in 1988-89, rising to 600 in 1990-91. These figures were not large, but he believed that the Government's recognition of the problem facing rural workers would be popular. While he accepted the political difficulties of stimulating a debate on

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rural planning issues at the present time, he believed that the Government's case was strong and that the initiative would prove successful if it were carefully presented. He therefore sought authority to proceed with the publication of the two papers as proposed in his minute of 29 April.

In discussion the following main points were made.

- (a) There was more acceptance among Government supporters in the Home Counties than might have been supposed for the cases both for additional rural housing and for the special need for low cost housing in rural areas. There was as yet no consensus view about the best ways in which new rural housing could be provided, and much needed to be done to form opinions on these issues. But the foundations already existed for acceptance of the Environment Secretary's arguments.
- (b) Much of the antipathy towards new housing developments in rural areas was due to the heavy-handed and monotonous designs and high densities of many such developments in the past. Now that more land was available for release from agricultural requirements, there was a good case for building to lower housing densities, which would be both more pleasant for the occupants and, in many respects, less damaging to the environment. It would be welcome if debate on the matter ended with a consensus to that effect, and if it were made clear that high-density housing would never be permitted on the sites in question, the land costs should not be driven up by that expectation. But it might nevertheless be difficult for the Government to argue in favour of lower housing densities since that necessarily involved larger areas of land being taken into development.
- (c) Everything possible should be done to encourage a mix of provision in new rural housing developments. This was important both to serve the variety of housing needs that existed, and to achieve a stimulating variety of appearance. Some recent developments had been carried through by a number of large construction firms acting in co-operation: this helped to provide a good housing mix, as well as reducing risks and costs.
- (d) The Government had achieved considerable success with its efforts to ensure that public sector landowners released land that was surplus to requirements. Much of that land, however, was in derelict areas that were not immediately attractive for housing and, rather, required improvement on Urban Development Corporation lines. The Ministry of Defence was unusual in having large rural landholdings containing areas suitable for immediate development.
- (e) A major inhibiting factor on any progress on rural planning was the slowness of the planning procedure itself, which was not generally understood by the public. The modifications of structure plans that would be needed

to accommodate the Environment Secretary's suggestions would take years to come about. Modification by local authorities of their structure plans would also be the appropriate way to adjust the boundaries of the Green Belt if people felt that to be appropriate in order, for example, to free industrially blighted areas of the Belt for alternative development. It had already been agreed in principle that the present machinery of structure plans should be radically streamlined, and the Environment Secretary hoped that it would be possible to introduce the necessary legislation in the session after next. It was very desirable that a reformed planning system should work much more quickly than the present one.

- (f) Although the Environment Secretary's paper on rural housing was a necessary component of the initiative, there were dangers in putting too much emphasis on the provision of accommodation for rent. At a time when many people were prepared to pay high prices for rural dwellings it would be divisive if it were made too easy to obtain a subsidised rent, leading to the possibility of outright purchase at a discounted price. The possibility of local authorities building dwellings for leasehold, with the cost of the land met by a ground-rent, also contained political perils. On the other hand, there was a strong perception in rural areas that any accommodation becoming available for purchase was snapped up at prices that country-dwellers could never afford, and that a supply of low-cost accommodation for rent or shared ownership needed to be guaranteed for those employed in traditional low-paid rural activities. In view of the very rapid increase in rural house prices in many parts of the country, such as East Anglia, this matter was rapidly becoming politically prominent, and the Government would be expected to address it during the present Parliament.

The Prime Minister, summing up the discussion, said that the meeting agreed that the case outlined by the Environment Secretary for a new approach to planning for housing in rural areas was a persuasive one and that it was right for the Environment Secretary to proceed to stimulate discussion in the way he proposed. The issue was, however, a most sensitive one with Government supporters, and the presentation of the Government's views would need to be handled with extreme care. In particular, it was most important that the Government should not appear to be making all the running on the matter, and everything should be done to stimulate helpful initiatives from backbench Members of Parliament and other groups outside Government. The general line that the Government should adopt should be that without developments of the kind being proposed, rural community life would wither and disappear. The meeting also agreed that the Environment Secretary's paper on rural housing, reporting a modest increase in the number of rural housing associations, was a necessary, albeit somewhat experimental, part of the exercise. The Government should, however, be cautious about putting too much emphasis on the

provision of subsidised housing for rent and possible purchase, since this could very easily be misunderstood. The real need was for new accommodation to be built for purchase, and the overriding requirement was that developments should offer a wide mix of accommodation and facilities, both to enable people to move up the ladder from cheap starter homes, and to encourage the formation of socially cohesive communities. Subject to these points, the meeting agreed that the Environment Secretary should proceed to issue his two proposed documents, under cover of an answer to an arranged Parliamentary Question, as he had proposed in his minute to her of 29 April. Any Ministers who had further drafting comments on the documents should convey them to the Environment Secretary as soon as possible.

Looking further ahead, it was clearly most important that the changes that were proposed to the present top-heavy planning machinery should result in a system that worked more swiftly. The Environment Secretary already had policy approval for the streamlining of the present machinery for structure plans and he hoped to bring forward legislation on this in the 1989-90 session. He should review all the other measures bearing on rural housing that might be incorporated in such legislation in the light of the points made at the meeting, and should bring forward a considered set of proposals for discussion with colleagues in good time.

I am sending copies of this letter to the Private Secretaries to the Ministers attending the meeting, and to the others present.

*Yours sincerely*

*Dominic Morris*

(DOMINIC MORRIS)

Roger Bright, Esq.,  
Department of the Environment.

12. It is for the local planning authorities to consider the need for such phasing in the light of local circumstances. Phasing of development over the period of the plan may be justified by considerations relating to infrastructure or the adequacy of other services, or by evidence that market demand would lead to total planned provision for housing being exhausted in the early years of the plan. The key requirement is that proposals for phasing should be explained and justified, and should allow for a reasonable degree of flexibility: very precise specification of the numbers of houses to be provided on a year-by-year basis is not appropriate, given uncertainty as to when planning permissions will be implemented and the need for orderly site development.

13. Where a 5 year supply of land for housing is available, consistent with the provisions of the structure plan, policies relating to phasing incorporated in structure or local plans will be a material consideration to be taken into account, along with other considerations, in determining individual applications and appeals. While the existence of an adequate 5 year land supply will not in all circumstances be a sufficient reason for refusing planning permission for other sites, strong justification would normally be required for further release of land in advance of the planned phasing where the development plan is up-to-date and the reasons for adopting a phasing policy are still valid.

14. Authorities are urged to ensure that plans are prepared on the basis of as complete an identification of sources of land supply as is practicable. The more comprehensive the local plan is in this respect, the less difficulty there should be in dealing with proposals for the development of previously unidentified sites. Where assumptions are made in the plan about the future availability of small unidentified sites, they will need to be checked by regular monitoring of planning permission granted. Phasing policies should recognise the need for possible adjustment to the timing of land release to the extent that the emergence of unidentified sites exceeds or falls short of the assumptions in the plan.

- Reversing attempts to fill demand
- 'unc. de certainty' means redene nos.
- New villages out of existing allocation - WW is briefing.
- looks like more negotiation.



FROM: P J CROPPER  
 DATE: 8 July 1988

PS/PAYMASTER GENERAL

cc PS/Chancellor  
 PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Economic Secretary  
 Sir T Burns  
 Mr Tyrie  
 Mr Call

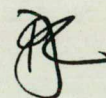
PLANNING AND THE BALANCE OF PAYMENTS

1. Reference to Paymaster General's minute of 6 July.
2. No, I don't think I was speaking only of the young, the elderly and the transient. Though it would be no bad thing to offer them more of what they wanted. The young usually have no interest in the garden that goes with a shared terrace house in Balham. Neither should they get all tangled up with house ownership during their first few years at work (in my view, anyhow, speaking as one who has seen property prices go down as well as up). As for the old, the current success of sheltered housing points the way, but you have to be very well off to afford most of what is being offered at present. Surely rented apartments are the real answer to John Butterfill's predicament: unless the old person has an overwhelming sentimental attachment to No 6 Acacia Avenue, he or she should sell up, invest the proceeds and go rented.
3. The Paymaster's real query related to the not-young and the not-old. I would have thought there was, even in England, a big market for rented accommodation among that group too. Go to any continental city, or to Glasgow for that matter, and you find apartment blocks the rule. A number of things have happened lately which are likely to take England in the same direction:

- (i) once the housing market finds its proper level, it is going to be a dangerous place. It is all very fine borrowing £100,000 at 10 per cent to buy a semi in Surbiton when values are rising: less fun when the capital appreciation drops out of the equation and the price even goes down. In London, conventional owner-occupied housing is already out of reach of the one-earner family: it will get worse. For them, the proper answer is going to be rented apartments. As in Hong Kong and Singapore.
- (ii) commuting has become intolerable and shows little sign of getting better. I would not dream of settling in Tonbridge if I had my time again. In the sixties and seventies it was a reasonably comfortable way of life. Today, even the first class compartments are full of people eating hamburgers with onion in them.
- (iii) the tendency towards second homes. Once you have a country cottage the last thing you want is a garden in London.

4. I fear that, once the Channel Tunnel is open, much of the British way of life is going to disappear. Particularly that part of it which revolves around the semi-detached house and the terrace cottage. It is not necessary, when that happens, to swing to the other extreme and put people in high rise slum blocks like we have in Lambeth. There is a middle way - the rented private sector apartment block.

5. The Paymaster may think I have done no more than amplify my original assertion. It would be very interesting to get an independent view on all this - that of an intelligent Swiss property lawyer perhaps, or the objective view of a Japanese economist.



P J CROPPER