PO-CH/NL/0424
PART B

Part. B.

SECRET

(Circulate under cover and
notify REGISTRY of movement)

Begins: 2/2/89.
Ends: 28/4/89.

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM

PO CH /NL/0424
PT. B.

Chancellor's (Lawson) Papers:
House Prices: The Royal Institute
of Chartered Surveyors Survey.

DD's: 25 Years

24/1/96.

PO CH /NL/0424 PT. B.

chex.ps/ds/73 CONFIDENTIAL

FROM: D I SPARKES
DATE: 2 February 1989

MR TYRIE

pwp

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mrs Chaplin
Mr Call

FLEXI-OWNERSHIP, THE RIGHT-TO-BUY, AND THE ELECTION

The Chancellor was grateful for your minute of 30 January discussing the arguments against flexi-ownership and in favour of an RTB booster. As you know, the Chancellor wholeheartedly agrees that the time is not yet right to launch the flexi-ownership initiative. He agrees that a substantial increase in flat sales in inner London would reap political advantages, but he is less sure that an RTB booster should be launched for the time being.

DIS.

DUNCAN SPARKES

pmg.vd

PERSONAL AND CONFIDENTIAL

PAYMASTER GENERAL

FROM: MALCOLM BUCKLER
DATE: 2 February 1989

MR TYRIE

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mrs Chaplin
Mr Call

FLEXI-OWNERSHIP, THE RIGHT-TO-BUY, AND THE ELECTION

The Paymaster General has seen your minute of 30 January. He has commented with respect to your views on flat sales in Inner London, that (as an Inner London MP) he sees a mild time bomb associated with such sales in terms of long-term repair and maintenance costs in blocks which remain primarily in the public sector.

MALCOLM BUCKLER
Private Secretary

fim1.ma/other/195

FROM: RUTH KOSMIN

DATE: 2 FEBRUARY 1989

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Hibberd
Mr O'Donnell
Mr Grice

Thanks

HOUSE PRICES: RICS SURVEY

Further to my minute of 24th January 1989 regarding the monthly questionnaire of the housing market undertaken by the Royal Institution of Chartered Surveyors and your request for some follow-up information, I can now confirm that the last occasion on which 18% of respondents reported lower prices over the previous three months was in **January 1982.**

2. The figures below show the average percentage of agents reporting in each of the categories used by the Survey for January 1982:-

<u>January 1982</u>

<u>Agents comparison with house prices over previous three months</u>

		Percentage of respondents	Dec 1988	
Very much higher (approx 8% or more)	7	0	3	28
Much higher (approx 5%)		0.2	9	
Slightly higher (approx 2%)		6.6	16	
The same		75.4	55	
Lower		17.8	18	
		100.0		

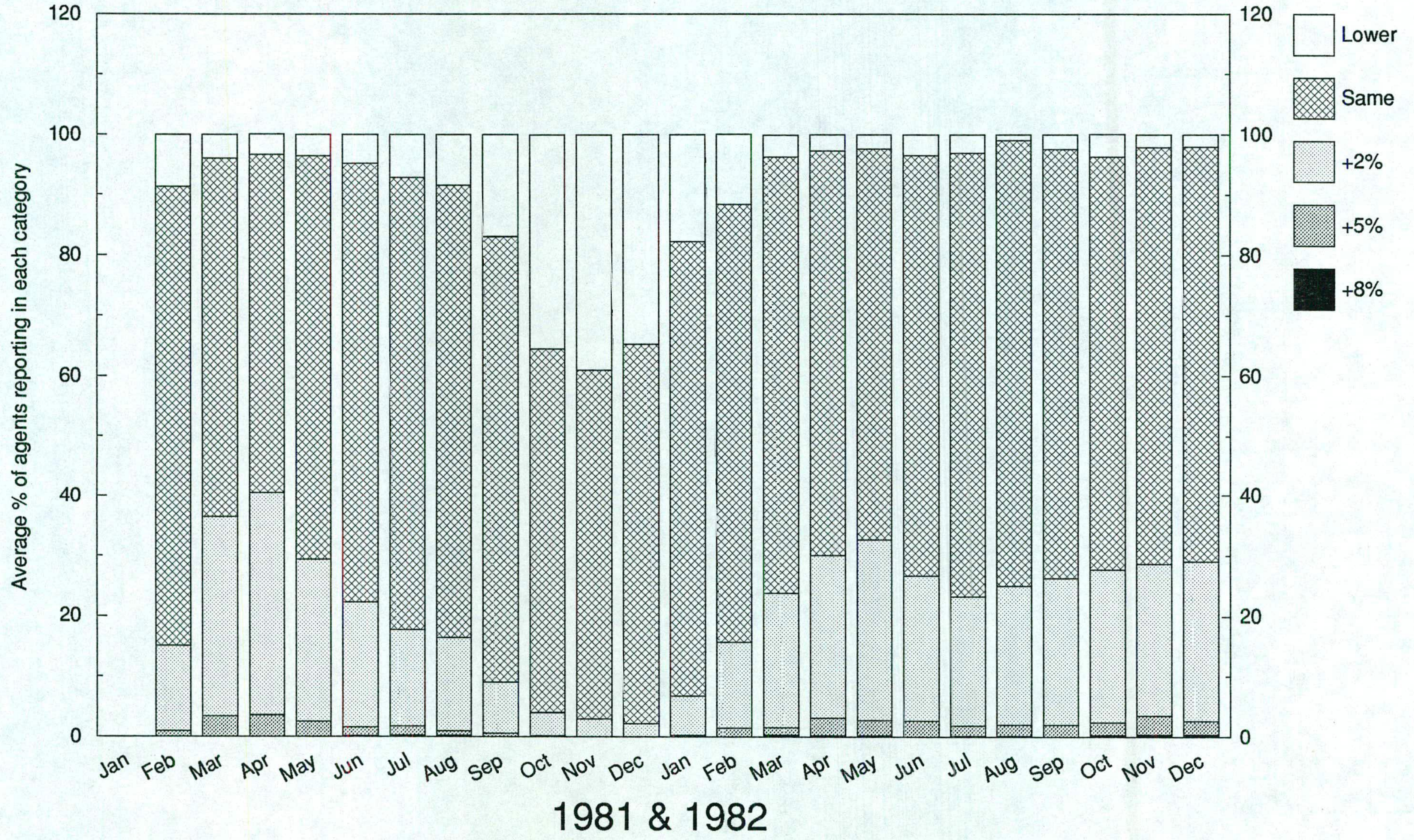
Ch/ Despite the current gloom being pedalled by some soothsayers, we have clearly seen this all before; indeed the market was much more depressed in Jan 82 in terms of agents' expectations of price rises. DIS

3. I attach a chart which covers the period 1981 and 1982, from which the January 1982 figures can be seen in context.

Ruth Kosmin

RUTH KOSMIN

Agents' Comparison With Prices Three Months Ago



FROM: D I SPARKES
DATE: 7 February 1989

MS RUTH KOSMIN

PMP

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Hibberd
Mr O'Donnell
Mr Grice

HOUSE PRICES: RICS SURVEY

The Chancellor has seen and was grateful for your minute of 2 February confirming that the last occasion on which 18 per cent of respondents to the RICS survey reported lower prices was in January 1982.

D.S.

DUNCAN SPARKES

CONFIDENTIAL

FROM: T S O'BRIEN

DATE: 16 FEBRUARY 1989

PS/CHANCELLOR OF THE EXCHEQUER

cc: Sir Peter Middleton
Sir Terence Burns
Mr Scholar
Mr Monck
Mr Evans
Mr Sedgwick
Mr Gieve
Mr Hibberd

Thanks. Interesting that MIPs were, in effect, included in order to reduce ~~the weight~~ standards of inflation, by reducing the weight of rents (a thing the importance of which measures)

RPI AND HOUSING COSTS: BACKGROUND TO THE 1975 RPIAC REPORT

You asked for some background on what lay behind the decision in the RPIAC's 1975 report to switch from "equivalent rent" to mortgage interest payments as the measure of owner-occupiers housing costs.

2. As you have pointed out, the RPIAC in its 1986 report said that by 1974 the equivalent rent concept was becoming unworkable because of the diminishing importance of the privately rented sector. Such reasoning is expanded upon in the original 1975 report when the change was proposed, and captures the flavour of much of the discussion at the time. The RPIAC reported that:

> "there has been considerable criticism of this method [equivalent rents] in recent years".

This criticism included a memorandum from the Trades Union Congress which was instrumental in the reconvening of the Committee itself. Many of the "independent" members of the Committee also voiced such criticism of the prevailing method, and indeed one member (Professor Ilersic) played a significant role in attempting to develop the alternative methodology using mortgage interest payments. The new methodology was accepted by the Secretary of State for Employment in February 1975.

3. The argument was that in the circumstances of the housing market then prevailing, the recorded rent measure was a very poor indicator of the "equivalent rent" for owner-occupiers. This was partly because the rateable values of houses were out of line with actual values; partly because the private and public sector rented markets were thought to have become thoroughly divergent; and partly because in any

case the rental market in general had become thoroughly distorted through regulation and administrative price setting. The public sector rent index had a disproportionate effect on the RPI as a whole.

4. On top of this, it was felt that the public were very conscious of the rising price of houses and of mortgage interest rates, and yet neither of these two factors was reflected directly in the retail prices index. The desideratum of maintaining public confidence in the RPI was one held quite strongly, and this must have influenced the move towards the mortgage interest approach.

5. Around the time of the RPIAC's first meeting, Stage Three of the Conservative Government's pay policy was coming into operation. The recorded RPI was relevant to this policy, with a threshold agreement of up to 40 pence for every one per cent rise over seven per cent in the October 1973 Retail Price Index. Although at the time there may have been some uncertainty as to whether the threshold would be triggered, in the event it was, with the RPI increase being well above 7 per cent. But the results of the deliberations of the RPIAC could not have been expected to come through in such a short time as materially to influence Stage Three.

6. You ought to be aware, however, that in the TUC's original submission to the RPIAC, there was a proposal, alongside that on owner-occupier housing costs, to remove rent rebates from the RPI. This was another move which could have been expected to increase the RPI. The RPIAC felt that the case for such a change was weak, and so this part of the TUC's submission received short change.

7. The movement for the inclusion of mortgage interest payments in the RPI did relieve some of the importance attached to the LA rent indicator. The pressure to artificially control such rents, which was important as the memoirs of some Labour Ministers testify, was thus reduced.

This is a cover for what Tsy files show: Treasury pressed v hard to reduce weight of LA rents, so it could peel them up as an expenditure saving measure.

Tom O'Brien

T S O'BRIEN

CONFIDENTIAL

FROM: T S O'BRIEN
DATE: 17 FEBRUARY 1989

CHANCELLOR

Ch
Batty — and DoE
must clean up their act
AA

cc: Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Sedgwick
Mr Grice
Mr Hibberd
Mr Ritchie

I had better minute ~~send a note to~~ Mr Ridley

HOUSE PRICES AND THE JANUARY RPI

House price data feeds into the RPI through three direct channels. The first and most important is in the mortgage interest payments index, where house prices drive the calculation of 'debt outstanding' to which the prevailing basic mortgage rate is applied. The second is in a proxy for dwelling insurance premiums. The third is in a proxy for estate agents' fees, which is subsumed under the 'household fees' category.

2. The house price data used is a mix-adjusted index supplied by the Department of the Environment, based on a 5 per cent sample of building society mortgages (covering all societies). But because this quarterly data is supplied with a lag of about one quarter, the Department of Employment must derive monthly house price figures by interpolating forecasts of the current and preceding quarter as supplied by the DoE.

3. The DoE forecasts and data produced in the second half of last year, together with the derived D Emp estimates as used in the RPI, are shown in the attached tables. Table A1 shows the house price data supplied in each of the last six months, for 1988Q2 to 1989Q1. The quarter-on-quarter increase implied by the successive estimates is shown in Table A2. This table clearly shows the scale of the revisions.

4. In October, the DoE actually revised down their forecast of house price inflation. They left it unchanged in November, but in December discovered that the increase from Q2 to Q3 was 13.1 per cent, rather than 3.6 per cent. At the same time they revised down the increase they thought would occur between Q3 and Q4, from 2.4 per cent to only 0.2 per cent. This month, they have suggested the increase is 6.6 per cent. They have marginally raised upwards the increase expected to 1989Q1.

5. Table B1 shows the derived house price series actually used in the RPI (but not normally published) and the month-on-month percentage change is in Table B2. I'm afraid that Table B2 shows a quite

unbelievable picture, but this is on the basis of unrevised figures. In fact changes to the house price series to both present and past figures are incorporated in the calculation of the outstanding debt on mortgages. This seems to be the appropriate procedure, but it enhances the 'step-change' problem we met with this month.

6. As I said in my note to you on the January RPI (16 February), the latest house price revision caused around a 0.25 point increase in the RPI which we were not expecting. Of this, approximately 0.15 points came through in mortgage interest payments. But getting on for another 0.1 point came from the combination of a large increase in the dwelling insurance premium index and estate agents' fees within household services.

7. Of course predicting house prices is a difficult exercise, and particularly so in the housing market of last year. Part of the problem lies in the timeliness of the DoE's data, which is quarterly for this index and appears with a lag of 2-3 months. I believe that other Divisions are liaising with the DoE in this area, and will be pressing them to consider producing a monthly mix-adjusted house price index on a more timely basis.

8. Part of the problem also lies in the DoE forecasting approach, since it appears on the face of it that through the second half of last year they did not use all available information. In particular the Halifax Building Society produce a mix-adjusted house price index on a monthly basis with a short publication lag. This is conceptually similar to the DoE index, and appears to move closely in line with it. If the DoE had used the Halifax index as the basis of their projections over the past few months, then the errors and subsequent corrections would almost certainly have been smaller. The Dept of Employment inform me that the DoE are trying to improve their forecasting approach.

Tom O'Brien

T S O'BRIEN

HOUSE PRICE DATA & THE RPI

Dept. of Environment

A1

mix-adjusted House Price

Period	Date Supplied (for RPI Index in previous month) 88 Sept	Oct	Nov	Dec	89 Jan	Feb
1988 Q2	53,300[F]	53,300	53,300	53,300	53,300	53,300
Q3	55,700	55,200	55,200	**60,300**[F]	60,300	60,300
Q4	57,500	56,500	56,500	60,400	60,400	**64,300**[E]
1989 Q1				61,000	61,000	65,500

A2

House Price Series % Increase on Previous Quarter

	Date of Estimate 88 Sept	Oct	Nov	Dec	89 Jan	Feb
Q3	4.5	3.6	3.6	**13.1**	13.1	13.1
Q4	3.2	2.4	2.4	0.2	0.2	**6.6**
89 Q1				1.7	1.7	1.9

Dept. of Employment

B1

House Price Series

For RPI in	Date Used 88 Sept	Oct	Nov	Dec	89 Jan	Feb
1988 Aug	55,700					
Sept		55,633				
Oct			56,067			
Nov				**60,400**		
Dec					60,600	
1989 Jan						**65,100**

B2

Price Series - as used in RPI

% Change on Previous Month

88	Sept	-0.12
	Oct	0.78
	Nov	**7.73**
	Dec	0.33
89	Jan	**7.43**

FROM: A C S ALLAN
DATE: 13 February 1989

MR O'BRIAN

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Sedgwick
Mr Hibberd

JANUARY RPI

The Chancellor was grateful for your minute of 9 February. He would be grateful for more information about the "significant revisions" by the Department of the Environment to their forecast of house prices.

ACSA

A C S ALLAN

chex.md/aa/7

CONFIDENTIAL

FROM: A C S ALLAN
DATE: 20 February 1989

~~BF in 1st Order PQ Wed or Thursday~~

MR O'BRIEN

cc Sir P Middleton
Sir T Burns
Mr Monck
Mr Scholar
Mr H P Evans
Mr Sedgwick
Mr Gieve
Mr Hibberd

RPI AND HOUSING COSTS: BACKGROUND TO THE 1975 RPIAC REPORT

The Chancellor was grateful for your minute of 16 February. He thought it was interesting that MIPs were, in effect, included in order to reduce recorded inflation, by reducing the weight of rents (and thus the importance of rent increases).

ACSA

A C S ALLAN

chex.rm/aal/30 CONFIDENTIAL

FROM: A C S ALLAN
DATE: 20 February 1989

BF 23/2
25/2

MR O'BRIEN

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Sedgwick
Mr Grice
Mr Hibberd
Mr Richie

Please chase

HOUSE PRICES AND THE JANUARY RPI

The Chancellor was grateful for your minute of 17 February. He feels he should write to Mr Ridley to press DOE to improve their methods, and would be grateful for a draft.

A C S ALLAN

THE INDEPENDENT

Ministers fear labour and skill shortages will fuel inflation

3

By Barrie Clement
Labour Editor

GOVERNMENT concern over yesterday's vote for industrial action by Jaguar workers is dwarfed by fears of a much more damaging long-term wage inflation.

So far the Cabinet's plea to employers to moderate pay offers has been interpreted as a reaction to the present attempts by more than two million workers in the motor manufacturing and engineering industries to win rises which keep pace with, and if possible, exceed price increases.

In fact, Government advisers are becoming increasingly concerned about an insidious and potentially more influential factor which could turn an acute short-term difficulty into a major economic problem.

Government worries centre on the fashionable topics of the moment in ministers' speeches, that of demography and skill shortages. Norman Fowler, Secretary of State for Employment, is constantly exhorting employers to increase child care provision for working mothers to ease labour shortages and to take a more serious attitude to training.

A vital sub-text of that exhortation — but something Mr Fowler dare not say for fear it may become a self-fulfilling prophesy — is if they do not do either they will have to pay big increases to retain and recruit workers. For "demography" and "the need for training" read inflation.

The shortage of school-leavers is having its effect. The stores group Tesco recently had to make up for a growing shortage of school-leavers by awarding rises of up to 22 per cent to younger employees. The Government's ideology may make the problem more difficult to cope with.

Three years ago, Kenneth Clarke, then Minister of State at the Department of Employment, gave the Government's seal of approval to decentralised wage bargaining. The idea was to erode the power of trade unions to keep wages down and to allow employers a flexible response to local labour markets. The potential problem of this philosophy is that the "70s disease" of leap-frogging in national agreements may be replaced by a similar but far less controllable competition at local and regional level with unforeseeable results.

Some employers believe national pay bargaining has an important function in gaining union help in policing agreements. The argument goes that union leaders loathe having their nationally-negotiated pay deals undermined by workers in the same industry securing bigger rises.

Even a nationally negotiated pay "spine" similar to that agreed between the Government and civil service unions contains inherent problems. Whitehall management might find that the notional upper limit of about 18 per cent becomes the rule not the exception because of difficulties in recruiting clerical workers.

If the Government decides to become more "hands-on", it could still affect the provision of training and child care, but there is little it can do about the shortage of young people.

Daily Telegraph

Surveyors say house prices re-awakening

6

By Ian Cowie
City Staff

RENEWED optimism and reports of rising house prices mark the latest property survey by the Royal Institution of Chartered Surveyors.

Mr Peter Miller, the institution's spokesman, said: "There is clear evidence that the market is re-awakening. Activity in recent times has defied many of the pundits and the residential property market is poised to move forward with renewed vigour."

More than 170 estate agents reported on house price changes during the quarter ending last month. Four per cent of agents registered price increases of eight per cent — twice as many as reported this rise last quarter.

But more than half those surveyed reported prices unchanged over the last three months.

The institution claims the Budget should be used to encourage first-time home-buyers by increasing mortgage tax relief and cutting the cost of stamp duty.

Mr Miller said: "Eyes are on the Chancellor to provide extra confidence, particularly for those entering the market."

7.

fim2.cr/Kosmin/M.19

please minute

FROM: RUTH KOSMIN

DATE: 21 February 1989

CHANCELLOR

Thanks

Ch

This doesn't seem to stand up into hellish comments by RICS – see attached

AA

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Hibberd
Mr O'Donnell
Mr Grice

[Fallen their own [illegible]]

HOUSE PRICES: RICS SURVEY

I attach a chart which includes the latest results from the monthly questionnaire of the housing market undertaken by the Royal Institution of Chartered Surveyors.

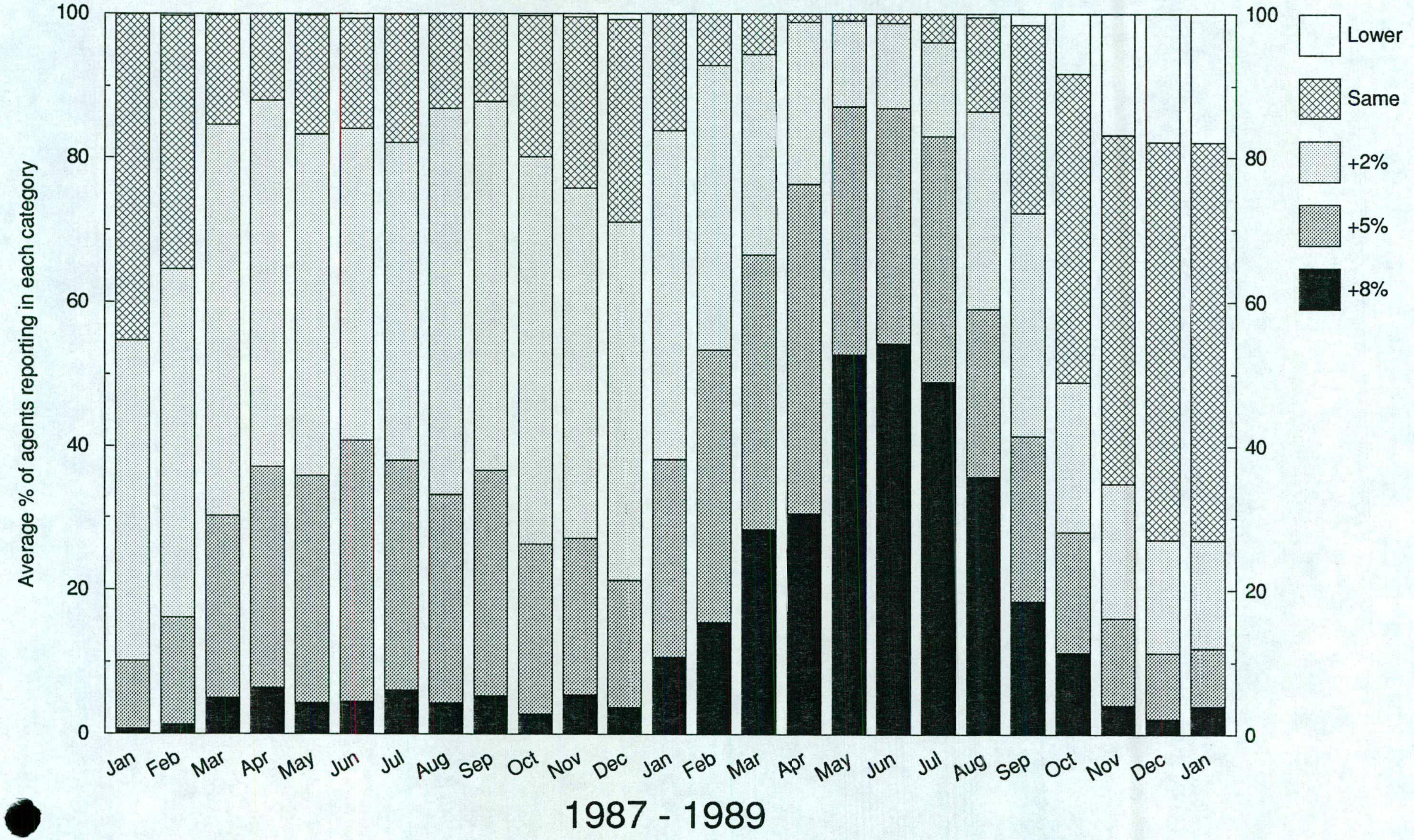
2. The results for the 3 months to January 1989 show virtually no change from the figures for the quarter ending December 1988. A total of 177 agents contributed to the latest survey, and the breakdown below shows the percentage of agents reporting in each of the categories:-

		%
i.	very much higher (approx 8% or more)	4.0
ii.	much higher (approx 5%)	8.0
iii.	slightly higher (approx 2%)	15.0
iv.	the same	55.2
v.	lower	17.9

Ruth Kosmin

RUTH KOSMIN
FIM2

Agents' Comparison With Prices Three Months Ago



chex.rm/r/41 UNCLASSIFIED

FROM: A A DIGHT
DATE: 22 February 1989

PWP

DR R KOSMIN

HOUSE PRICES: RICS SURVEY

The Chancellor has seen and was grateful for your minute of 21 February.

A A Dight

A A DIGHT

CONFIDENTIAL

FROM: S N WOOD
DATE: 24 February 1989

CHANCELLOR

cc Chief Secretary
Sir Peter Middleton
Mr Anson
Mr Byatt
Mr Monck
Mr Burgner
Mr Edwards
Mr Spackman
Mrs Holmans
Mr Betenson
Mr Cotmore
Mr Chaplin
Mr Call
Mr Tyrie

Ch,
Content to write as proposed?
27/2

OK

SUPPLY OF DEVELOPMENT LAND

The Secretary of State for the Environment wrote to you on 27 January following your conversation with him on 18 January.

2. Mr Ridley's letter explains his policy towards the supply of land for housing and for getting developers to pay for infrastructure costs associated with new development. He enclosed a copy of his Department's latest report on the provision of housing land. The main points in his letter, which is generally helpful, are as follows:-

(i) There is no physical shortage of land for housing in the South East, but there is strong local opposition to new development. Mr Ridley has done all he can to put across the message that more housing is needed to meet the needs of local people who for various reasons are forming more households.

(ii) The South East has maintained its share of rising national housing output. However he admits the supply of sites has still fallen short of demand.

(iii) He has persuaded SERPLAN, the voluntary association of South Eastern county planning bodies, to raise the overall total new provision for 1991-2001 from 460,000 to 560-580,000, and has approved a distribution of this between the counties.

(iv) The proposed reforms of the planning system, introducing regional guidance and abolishing structure plans in favour of statements of county planning policies and single-tier district development plans would strengthen the ability of the planning process to deliver the desired results.

(v) The report he attached showed that too many counties outside SERPLAN were pitching longer term provision too low, but since the cut-off date for the information on which the report was based, SERPLAN had corrected this so far as the South East was concerned.

(vi) He has encouraged "new villages", several schemes for which are in the pipeline, and is preparing a consultation paper on Section 52 agreements which capture part of planning gain for the community. He will show you that document when it is ready.

(vii) He is giving further thought to the question of surplus publicly-owned land and what more can be done to ensure its release for development. He will write again about this.

3. Mr Ridley's letter shows this exchange has been worthwhile in getting DOE to defend their policies for planning, for the provision of development land and for encouraging local authorities to get developers to provide infrastructure and other environmental or community benefits in their projects, where this tips the balance between allowing a project to proceed or not. In your reply you can welcome most of what he has to say.

4. So far as surplus land is concerned, we understand from Mr Ridley's officials that he is planning to issue a voluntary code of practice for all public bodies (Departments, NDPBs, local authorities and nationalised industries) covering publication of details of their holdings of surplus land and buildings. Separately, his officials have been looking into the possibility of making it easier for local authorities to lease vacant Government-owned houses and flats for the homeless. We are not yet completely convinced that his proposals are on the right lines. For example, the carrot he is offering local authorities to join in the code of practice is to cease keeping up-to-date the register of surplus property DOE currently maintain. Mr Ridley's power to direct disposal in response to a request by a would-be buyer is valid only for registered property. He may argue that this adversarial approach makes authorities reluctant to register their surplus land - it is relatively easy for them to avoid doing so by keeping it in sub-optimal use. The Audit Commission's report of last year on local authority property management would give him some support. For the moment it is sufficient to note that he is planning to write to you again about this.

5. I attach a draft letter.

SW

S N WOOD

lg2.ds/wood/drafts/24

CONFIDENTIAL

Be type final.

DRAFT LETTER FROM THE CHANCELLOR TO:

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

SUPPLY OF DEVELOPMENT LAND

Thank you for your letter of 27 January, following up our discussion on 18 January which I found helpful.

I agree with you that there should be no shortage of land for development in the South East, and that it is the function of the planning system to translate this into reality, in order to meet the unsatisfied need for new housing there (and indeed in ~~adjacent~~ neighbouring growth areas). So far as London and the South East are concerned, I welcome the steps you have taken to persuade SERPLAN to raise their sights. It will be important to ensure that their new higher objective for housing provision is matched by the plans of the county and district authorities, and I note good progress has been made with the counties at least. I have no doubt you will keep this under close review.

I read with interest the report on the provision of housing land throughout England which you enclosed with your letter. You are clearly right ~~I noted that land prices have risen very steeply over the last three years, which tends to confirm your view~~ that there has been a shortfall of supply compared with demand. I was surprised to see that less than half of English counties have current joint land availability studies. This appears to indicate a failure of liaison between those counties and the housebuilding industry. I was pleased to see from your letter that, where the report showed for certain South Eastern counties a shortfall of available land to meet expected demand over the next five years, this is being rectified in the distribution of SERPLAN's increased provision among the counties. Yet there are indications that the county plans are not always delivered at district level, at least in the sense that the distribution of available land between districts does not match customer preferences. I hope that your proposed reforms of the planning system will, when implemented, help redress the balance.

I was pleased to see that we are at one over the use of Section 52 agreements for planning gain. This seems to me a promising way to win over local opinion to development proposals, perhaps by encouraging environmental improvements paid for by the developer. I agree too that "new villages", where the developer funds infrastructure and community services, are a valuable concept, and welcome your encouragement of them.

Lastly, I note that you plan to write to me about means of ensuring the release of surplus publicly-owned land for development. So far as Government Departments are concerned, you will have seen the Prime Minister's response of 10 February to John Major's minute of 6 February, endorsing the need to keep up the pressure for disposals. I would ~~We should~~ welcome any help you can offer on this, and on ways of speeding up the disposal of local authority and other publicly-owned surplus land, particularly in inner city areas, and I look forward to receiving your thoughts on this.

NIGEL LAWSON

jsh/ch-rpi28.2 **CONFIDENTIAL**

FROM: J HIBBERD

DATE: 27 FEBRUARY 1989

CHANCELLOR OF THE EXCHEQUER

cc : Sir Peter Middleton
Sir Terence Burns
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr Grice
Mr Ritchie
Mr O'Brien

DEPARTMENT OF EMPLOYMENT'S PRICE ESTIMATES AND THE RPI

You asked (Alex Allan's minute to Tom O'Brien of 20 February, copy attached) for a draft letter for you to send to Mr Ridley pressing him to ensure his Department improved their method of estimating house prices. This was in the context of the unexpected increase in RPI inflation in January (and last November) due to Department of Environment revisions to house prices.

2. Treasury officials have recently written to Department of Environment officials on house price data. This was not specifically in an RPI context; it was seeking a more timely indicator of mix-adjusted house prices for general monitoring purposes. (At the moment we use a similar series produced by the Halifax Building Society which is useful, but limited by being Halifax specific.) But the RPI implications were addressed.

3. Since the Treasury is not directly responsible for the RPI, it may, therefore, be advisable to write to Mr Ridley stressing our own monitoring requirements. We could then point to the additional and considerable advantage of improving DoE's input to the RPI.

4. A draft is attached along these lines.

??

Tim Hibberd

J S HIBBERD

DRAFT LETTER:

FROM: CHANCELLOR OF THE EXCHEQUER

TO : MR RIDLEY, SECRETARY OF STATE FOR THE ENVIRONMENT

HOUSE PRICE ESTIMATES

The Treasury regularly monitors a number of indicators for more timely indications of recent developments in domestic demand than allowed by official statistics, which are usually available only with a considerable lag. One of the more important indicators is the monthly mix-adjusted house price series which is produced by the Halifax Building Society. This is useful, but limited by being restricted to one building society. We would find it a great help if the much more comprehensive mix-adjusted house price series produced by your Department on a quarterly basis was itself available monthly.

My officials have recently written to yours requesting such a series (copy attached). I would be grateful if you could ensure that this is given some priority. Among other things it would also improve your Department's input into the RPI. At present the RPI uses the quarterly DoE mix-adjusted house price series. The Department of Employment then interpolate between quarterly figures to get monthly figures. But genuine monthly data would be preferable.

Furthermore, the quarterly series supplied by the DoE to the DE for RPI calculation is available only two months after the end of the quarter. In between times the DoE has to provide their best forecast of house prices for the RPI. On two recent occasions, November of last year and January of this year, revisions to these forecasts in the light of subsequent actual data gave an unexpected and sharp increase to the RPI. I would welcome any steps your officials can take to improve the basis of their forecasts. The provision of a much more timely monthly series would be a significant input to this.

I am copying this to Norman Fowler.

fim2.cr/Ritchie/L.10

Mr O'Brien DEF|V|13
Ar: 42/3

Treasury Chambers
Parliament Street London SW1P 3AG

Telex 9413704

Telephone Direct Line 01-270
Switchboard 01-270 3000

Mr S Nandy
Department of the Environment
Housing Data and Statistics Division
2 Marsham Street
LONDON
SW1P 3EB

Your reference

Our reference

Date

21 February 1989

Dear Mr Nandy

HOUSE PRICE INDICES

We spoke on the telephone last week about the quarterly house price index, which is published in Housing and Construction Statistics. I have since spoken to some of my colleagues here, and can confirm that the Treasury view is that publication of a similar mix-adjusted house price index on a monthly basis would be highly desirable.

The present quarterly index is not actually available until a couple of months after the end of the quarter. Until this time, all we have in the way of official statistics on house prices are monthly figures for crude, unadjusted average house prices from the BS4 returns. When there are significant shifts in the mix of houses traded, looking at unadjusted average have prices can give a very misleading indication of what is happening to house price inflation. The last two quarters of 1988 have provided a good example of this.

For an up-to-date indicator of house price inflation, we in the Treasury are at present reliant on the Halifax Building Society, whose monthly house price index is both mix-adjusted and timely. But it is based on returns from the business done by one particular building society - albeit the largest - and it is a somewhat unsatisfactory situation to be entirely reliant on this one source, particularly if the government is already collecting the data to produce its own equivalent indicator.

The ideal solution would be for you to produce a monthly mix-adjusted house price index (or indices) from the BS4 returns. This information is reasonably comprehensive in coverage and has the added advantage of covering both prices at approval stage and prices of completion stage. You explained to me, however, that this would not be possible, because the limited range of information collected on the BS4 returns would not provide sufficient data for a satisfactory mix adjustment procedure. But, as I understand it, it would be possible to produce a monthly mix-adjusted index from the 5 per cent sample survey, which is the data source for the present quarterly index. Although the results from this survey are at present only compiled and published quarterly, the survey results arrive continuously over the course of the quarter, and the analysis could quite easily be done on a monthly basis as well.

A monthly mix-adjusted house price index compiled from the 5 per cent sample survey returns would be a very useful addition to the available range of housing market indicators. You said that you did not see any major statistical problems in producing such an index, and I hope that you will be able to go ahead and produce it. The Treasury would welcome such a move.

My own interest in this is in monitoring current developments in the housing and mortgage markets. But there is also some concern among those in the Treasury responsible for monitoring and forecasting general inflation about the problems which the absence of an official monthly mix-adjusted house price index has been causing in compilation of the RPI. As I understand it, you supply quarterly house price data to DE which is used in their calculation of the RPI. This data is based on the quarterly mix-adjusted house price index, but because this is only available around two months after the end of the quarter, the figures actually used in the RPI each month are typically based on forecasts. I believe that these forecasts have been quite seriously wrong on a couple of occasions in the last few months, and that this has led to some understatement in the published monthly RPI, followed by a step jump in the following month when the previous understatement is corrected.

I would guess that the errors in the forecasts came about though your not realising at first the extent of the divergence between mix-adjusted house price inflation and the rate of change in unadjusted average house prices which opened up in the second half of 1988. In these circumstances, the availability of a monthly mix-adjusted index compiled from the 5 per cent sample survey might have proved valuable in spotting this divergence earlier and adjusting your forecasts accordingly. It may also be worth in this context looking at the Halifax Building Society's latest house price index numbers, which are available very promptly, and which would have indicated a rather higher (mix-adjusted) house price inflation rate over the second half of 1988 than did the BS4-based figures for unadjusted average house prices

Yours sincerely

Allen Ritchie

ALLEN RITCHIE
FIM2 Division

cc Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr Grice
Mr Hibberd
Miss O'Mara
[redacted]

5393

cc. Sir T Burns
Mr. Scholar
Mr. Odling-Smee
Mr. Peretz
Mr. Sedgwick
Mr. Grice
36A/3 Mr. Hibberd
Miss O'Mara
Mr. O'Brien

I will be going to 'X', probably with Mr. O'Brien from EA1. A date and time have not as yet been fixed,
AMB 1/3

[redacted] Allen Ritchie
FIM2 Division
Treasury Chambers

AMB

Dear Mr ~~Ritchie~~,

HOUSE PRICE INDICES

Thank you for your letter of 21st February.

As I explained to you on the telephone, the need for a monthly mix-adjusted house price index has been apparent to us for some time. Recently, we have been having some discussions with the Department of Employment on the need for such an index. Early in March we shall be convening a meeting to discuss proposals on what can be done towards the production of a monthly indicator for the movement in house prices. The matter of short term projection of this indicator will also be raised. Please let me know if you would like to join this discussion group.

X'

I look forward to hearing from you.

Yours sincerely

Shekhar Nandy

Shekhar Nandy
HDS2
DOE
27th February 1989

~~Alex Allan~~

You should be aware of this in the light of my draft letter for the Chancellor to send to Mr Ridley circulated yesterday.

Jim Hibberd

1/3

11/1/3

FROM: RUTH KOSMIN

DATE: 28 February 1989

Very promising. ?. PSE let them not see this. New angle on regular series

a
Looks useful work

AA

SIR T BURNS

cc: Chancellor
Sir P Middleton
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Hibberd
Mr O'Donnell
Mr Grice

R.I.C.S MONTHLY SURVEY OF THE HOUSING MARKET - SOME FURTHER WORK

Considerable interest has been shown over the last few months in the monthly survey of the housing market produced by the Royal Institution of Chartered Surveyors. My minute of 1 December 1988 to the Chancellor explains the background to the survey, and the form of results that emanate from the work. It has to be emphasised that the survey produces mainly anecdotal evidence, and the questionnaire results are not statistically rigorous. They are based on the very variable monthly response rates from the 430 potential respondents in England and Wales. Interviewees are asked to consider the movement of house prices in their area over the previous 3 months, but no corrections are made for the number or types of properties sold, for turnover, or for the regional response rates.

2. The survey results have the benefit, nevertheless, of being very timely since they are available within a couple of weeks or so of the end of the three month period to which the data refers. In addition, the results of m y own work described below indicate that notwithstanding the lack of sophistication in the questionnaire methods and results, we can generate an index based on the RICS questionnaire which looks reasonably similar to the house price indices from the Halifax Building Society or the Department of the Environment. This encouraging result means that we can use the RICS survey with more confidence than we had thought earlier.

3. It is worthwhile outlining the computations involved in generating the RICS house price index from the questionnaire results. The survey asks agents whether over the previous 3 months house prices in their area have:-

(i) risen by approx. 8% or more

(ii) risen by approx. 5%

(iii) risen by approx. 2%

(iv) stayed the same

(v) fallen

We then get percentages of respondents for each of the categories (i) to (v) totalling 100 per cent. The index is then based on weighting these responses. Alternative weights were considered and analysed, but the chosen weights are as follows:-

8 (i) + 5 (ii) + 2 (iii) - 2 (v)

where (i), (ii), (iii) and (v) are the percentages of respondents in each category above. Since these proportions relate to changes over the previous 3 months, to approximate one month changes the weighted sum above is divided by 300.

4. The RICS survey was first carried out in December 1978, so November 1978 is taken as the starting point of 100. For each month henceforth the figures from that month based on the calculations above are cumulated to provide an index. Thus, November 1978 = 100 and January 1989 = 164.23, the latest available figure. All the data is shown in Table 1 at the end of this note.

5. It should be noted that in creating this index the scale is not quite right for comparison with other house price indices. However, all the figures are considered in twelve month percentage changes, and it is the movements that matter, not the scale.

Thus, the 3 charts below use two separate scales, but the relative movements of the RICS index with the alternative house price indices can be easily seen.

6. The following charts compare the annual percentage changes of the newly computed RICS index with:-

Chart A - the Halifax mix-adjusted house price index over the period January 1984 to January 1989.

Chart B - the DoE all house price series, not mix-adjusted, at mortgage approval stage from January 1980 to January 1989.

Chart C - the DoE all house price series, not mix-adjusted, at mortgage completion stage, from January 1980 to January 1989.

7. It is clear from the charts that the computed index and the other house price series move together fairly well. The RICS index seems to lack consistency, being behind the DoE unadjusted series but ahead of the Halifax series. There is obviously good reason to update regularly and to keep tracking the series.

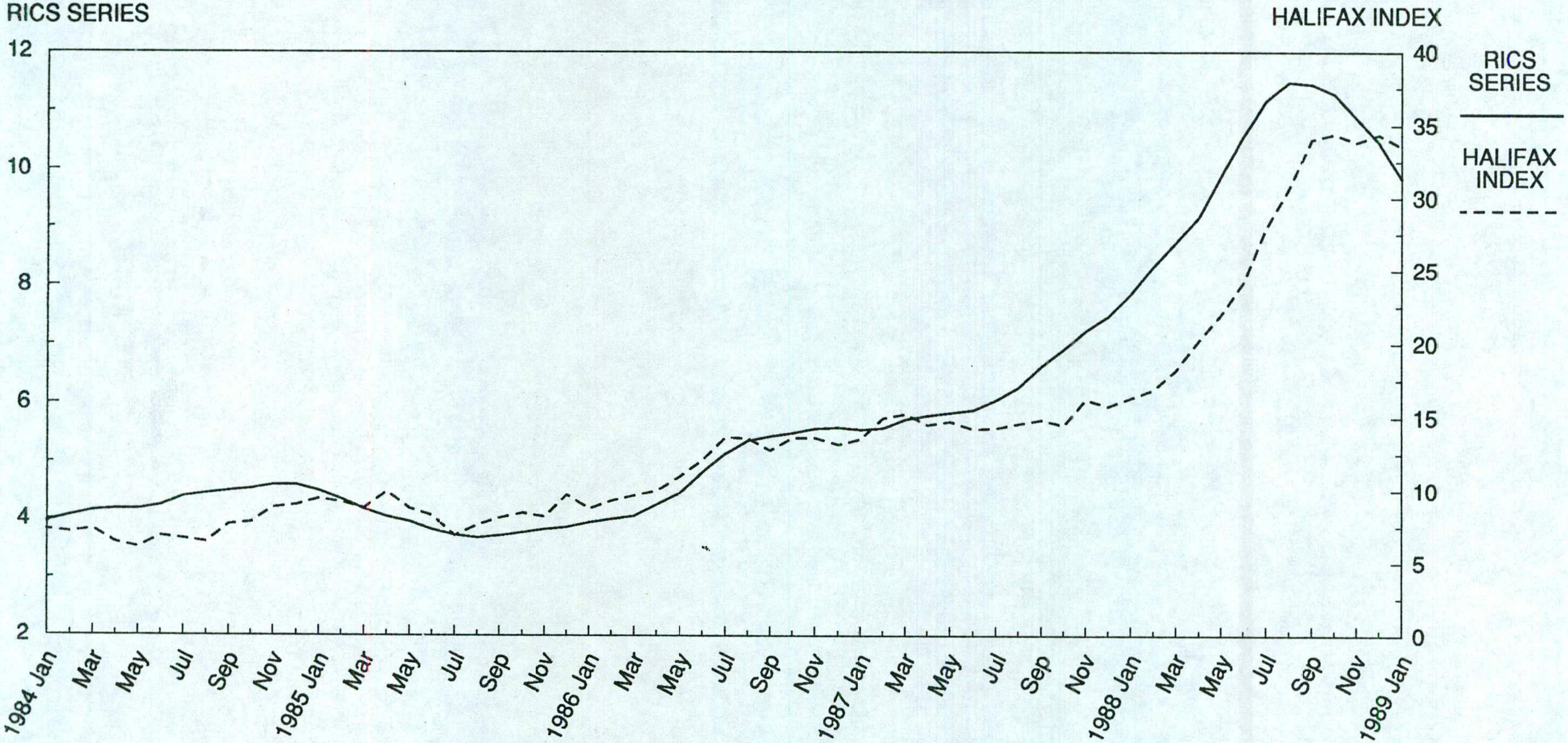
Ruth Kosmin

RUTH KOSMIN
FIM2

CHART A

RICS INDEX

(12 MONTH PERCENTAGE CHANGES)



1984 -1989

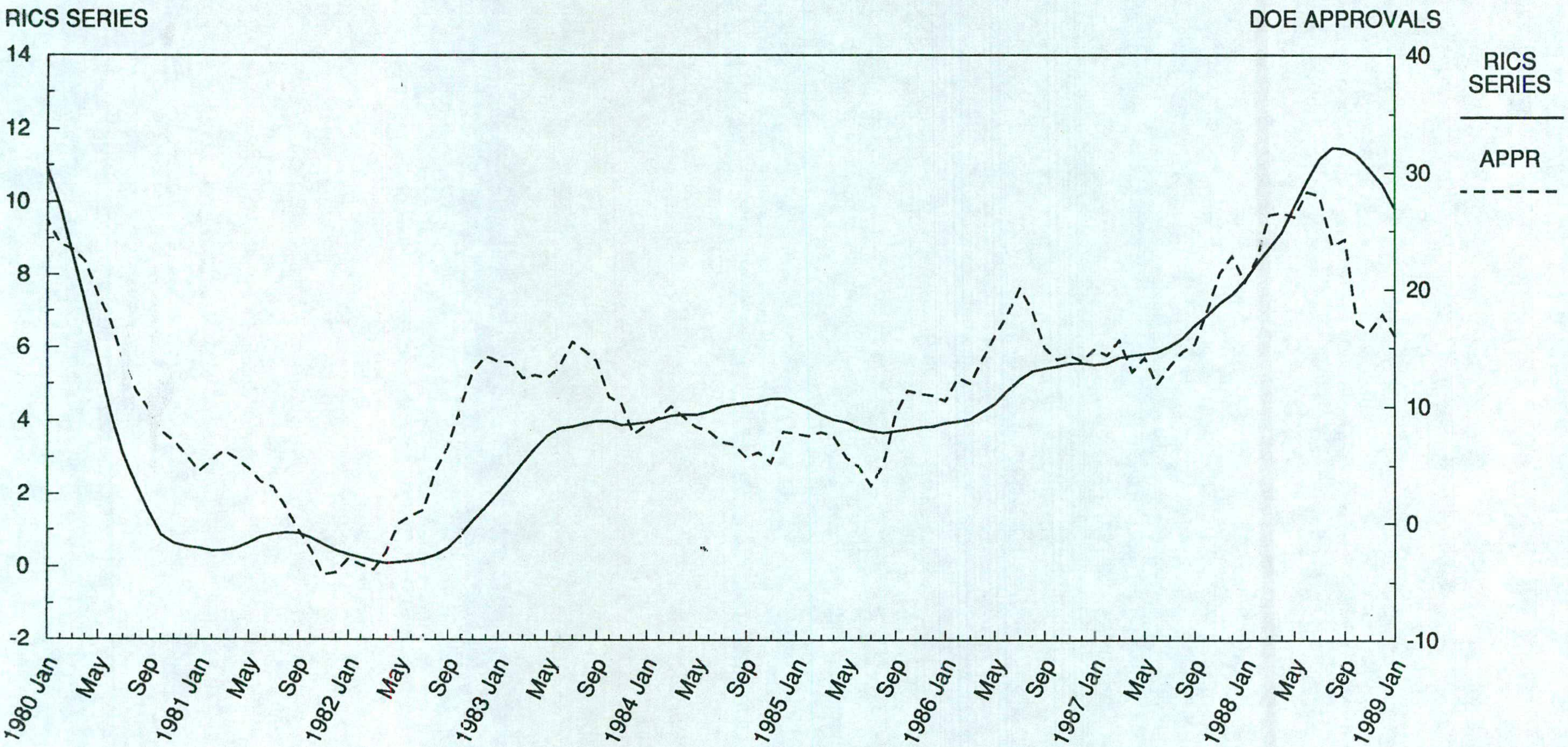
RICS SERIES AS IN TABLE 1

(November 1978 = 100)

CHART B

RICS INDEX

(12 MONTH PERCENTAGE CHANGES)



1980 - 1989

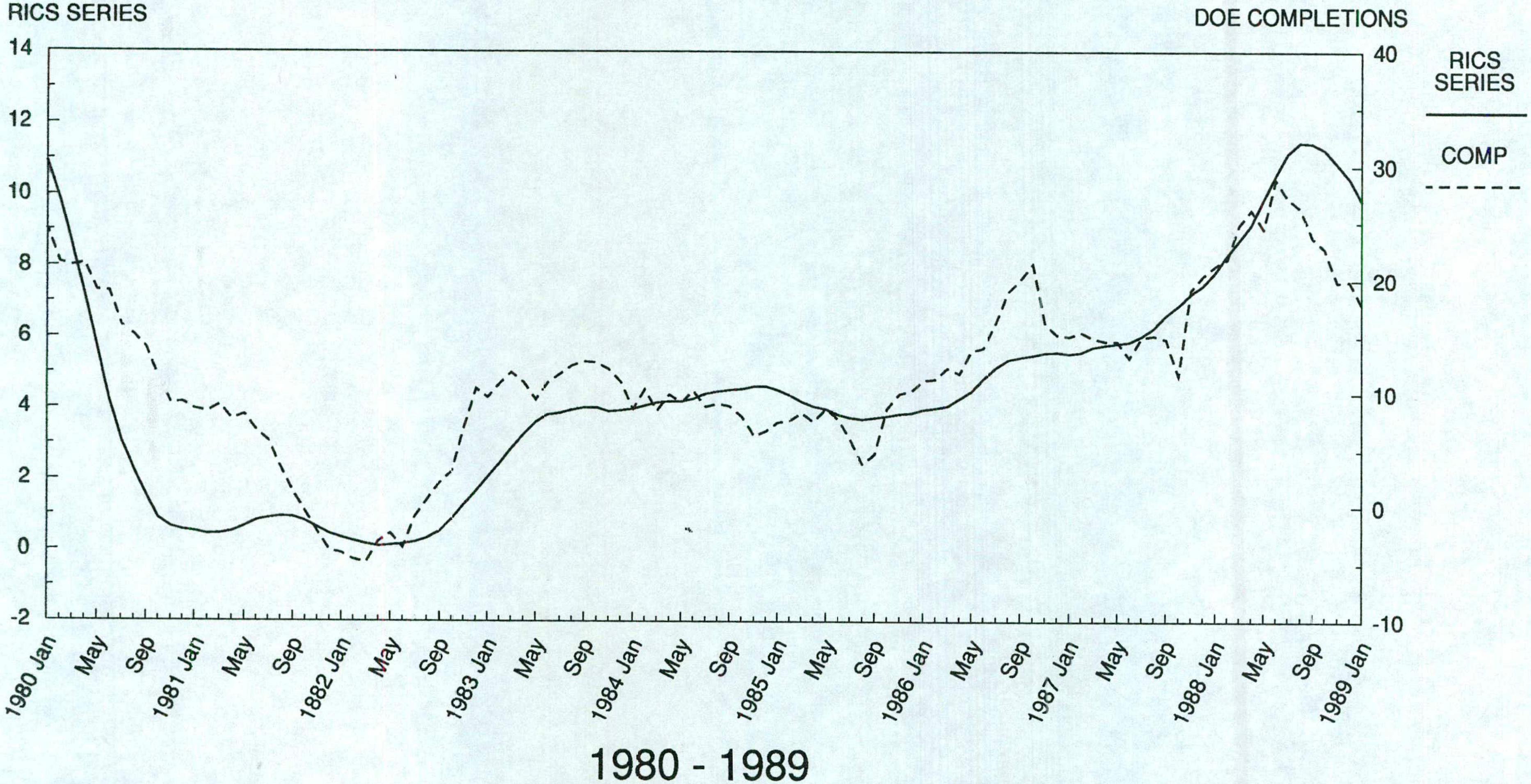
RICS SERIES AS IN TABLE 1

(November 1978 = 100)

CHART C

RICS INDEX

(12 MONTH PERCENTAGE CHANGES)



RICS SERIES AS IN TABLE 1

(November 1978 = 100)

TABLE 1 GENERATION OF R.I.C.S INDEX

DATE (3 months ending)		WEIGHTED RESPONSES TO RICS SURVEY (a)	(a)/300	INDEX	12 MTH % CHANGE OF INDEX
1978	Nov			100.00	
	Dec	281.98	0.94	100.94	
1979	Jan	294.90	0.98	101.92	
	Feb	361.92	1.21	103.13	
	Mar	434.49	1.45	104.58	
	Apr	442.41	1.47	106.05	
	May	475.98	1.59	107.64	
	Jun	448.48	1.49	109.13	
	Jul	358.83	1.20	110.33	
	Aug	266.90	0.89	111.22	
	Sep	227.87	0.76	111.98	
	Oct	195.19	0.65	112.63	
	Nov	68.90	0.23	112.86	12.86
	Dec	24.07	0.08	112.94	11.89
1980	Jan	33.05	0.11	113.05	10.92
	Feb	69.77	0.23	113.28	9.85
	Mar	67.40	0.22	113.51	8.54
	Apr	63.79	0.21	113.72	7.23
	May	10.40	0.03	113.75	5.68
	Jun	-15.74	-0.05	113.70	4.19
	Jul	0.76	0.00	113.70	3.06
	Aug	2.20	0.01	113.71	2.24
	Sep	-9.45	-0.03	113.68	1.52
	Oct	-22.87	-0.08	113.60	0.87
	Nov	-9.25	-0.03	113.57	0.63
	Dec	-3.29	-0.01	113.56	0.55
1981	Jan	15.68	0.05	113.61	0.50
	Feb	41.76	0.14	113.75	0.42
	Mar	75.38	0.25	114.01	0.44
	Apr	84.79	0.28	114.29	0.50
	May	59.09	0.20	114.48	0.64
	Jun	40.47	0.13	114.62	0.81
	Jul	26.83	0.09	114.71	0.88
	Aug	18.86	0.06	114.77	0.93
	Sep	-14.14	-0.05	114.72	0.92
	Oct	-62.66	-0.21	114.52	0.80
	Nov	-72.00	-0.24	114.28	0.62
	Dec	-65.20	-0.22	114.06	0.44
1982	Jan	-21.22	-0.07	113.99	0.33
	Feb	12.17	0.04	114.03	0.24
	Mar	45.27	0.15	114.18	0.15
	Apr	64.46	0.21	114.39	0.09
	May	69.26	0.23	114.62	0.12
	Jun	54.21	0.18	114.81	0.16
	Jul	45.82	0.15	114.96	0.22
	Aug	54.18	0.18	115.14	0.32
	Sep	53.59	0.18	115.32	0.52
	Oct	55.71	0.19	115.50	0.86
	Nov	64.82	0.22	115.72	1.26
	Dec	62.62	0.21	115.93	1.64
1983	Jan	115.04	0.38	116.31	2.04
	Feb	150.34	0.50	116.81	2.44

DATE (3 months ending)		WEIGHTED RESPONSES TO RICS SURVEY (a)	(a)/300	INDEX	12 MTH % CHANGE OF INDEX
	Mar	186.19	0.62	117.43	2.85
	Apr	208.48	0.69	118.13	3.26
	May	182.76	0.61	118.74	3.59
	Jun	133.19	0.44	119.18	3.81
	Jul	59.85	0.20	119.38	3.85
	Aug	89.17	0.30	119.68	3.94
	Sep	70.90	0.24	119.91	3.99
	Oct	59.85	0.20	120.11	3.99
	Nov	31.50	0.11	120.22	3.89
	Dec	74.50	0.25	120.47	3.92
1984	Jan	139.30	0.46	120.93	3.97
	Feb	186.33	0.62	121.55	4.06
	Mar	223.47	0.74	122.30	4.14
	Apr	225.85	0.75	123.05	4.17
	May	189.85	0.63	123.68	4.17
	Jun	163.91	0.55	124.23	4.24
	Jul	121.26	0.40	124.63	4.40
	Aug	112.28	0.37	125.01	4.45
	Sep	90.30	0.30	125.31	4.50
	Oct		0.25	125.55	4.53
	Nov	57.28	0.19	125.75	4.60
	Dec	77.99	0.26	126.01	4.60
1985	Jan	110.04	0.37	126.37	4.50
	Feb	139.13	0.46	126.84	4.35
	Mar	169.41	0.56	127.40	4.17
	Apr	186.86	0.62	128.02	4.04
	May	166.63	0.56	128.58	3.96
	Jun	120.25	0.40	128.98	3.82
	Jul	91.82	0.31	129.29	3.73
	Aug	95.74	0.32	129.60	3.68
	Sep	109.51	0.37	129.97	3.72
	Oct		0.32	130.29	3.77
	Nov	79.80	0.27	130.56	3.83
	Dec	95.67	0.32	130.87	3.86
1986	Jan	146.77	0.49	131.36	3.95
	Feb	161.76	0.54	131.90	4.00
	Mar	201.97	0.67	132.58	4.06
	Apr	268.61	0.90	133.47	4.26
	May	251.01	0.84	134.31	4.46
	Jun	267.13	0.89	135.20	4.82
	Jul	219.89	0.73	135.93	5.14
	Aug	184.34	0.61	136.55	5.36
	Sep	144.57	0.48	137.03	5.43
	Oct		0.42	137.45	5.49
	Nov	108.03	0.36	137.81	5.56
	Dec	109.21	0.36	138.17	5.58
1987	Jan	141.93	0.47	138.65	5.54
	Feb	181.03	0.60	139.25	5.57
	Mar	275.06	0.92	140.17	5.72
	Apr	306.88	1.02	141.19	5.78
	May	286.93	0.96	142.15	5.83
	Jun	302.87	1.01	143.15	5.88
	Jul	296.68	0.99	144.14	6.04
	Aug	286.27	0.95	145.10	6.26
	Sep	301.70	1.01	146.10	6.62
	Oct	247.07	0.82	146.93	6.90

DATE (3 months ending)		WEIGHTED RESPONSES TO RICS SURVEY (a)	(a)/300	INDEX	12 MTH % CHANGE OF INDEX
	Nov	248.45	0.83	147.76	7.22
	Dec	215.79	0.72	148.47	7.46
1988	Jan	314.37	1.05	149.52	7.85
	Feb	392.64	1.31	150.83	8.32
	Mar	473.74	1.58	152.41	8.74
	Apr	518.53	1.73	154.14	9.17
	May	617.94	2.06	156.20	9.89
	Jun	621.21	2.07	158.27	10.56
	Jul	587.94	1.96	160.23	11.16
	Aug	456.32	1.52	161.75	11.48
	Sep	321.70	1.07	162.82	11.44
	Oct	199.84	0.67	163.49	11.27
	Nov	96.38	0.32	163.81	10.87
	Dec	59.24	0.20	164.01	10.46
1989	Jan	65.88	0.22	164.23	9.83

cc CST
Sir P Middleton
Mr Anson
Mr Byatt
Mr Monck
Mr Burgner
Mr Edwards
Mr Spackman
Mrs Holmans
Mr Betenson
Mr Cotmore
Mr Wood
Mr Chaplin
Mr Call
Mr Tyrie

PMP

Treasury Chambers, Parliament Street,
01-270 3000

28 February 1989

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

Dear Nick

SUPPLY OF DEVELOPMENT LAND

Thank you for your letter of 27 January, following up our discussion on 18 January which I found helpful.

I agree with you that there should be no shortage of land for development in the South East, and that it is the function of the planning system to translate this into reality, in order to meet the unsatisfied need for new housing there (and indeed in neighbouring growth areas). So far as London and the South East are concerned, I welcome the steps you have taken to persuade SERPLAN to raise their sights. It will be important to ensure that their new higher objective for housing provision is matched by the plans of the county and district authorities, and I note good progress has been made with the counties at least. I have no doubt you will keep this under close review.

I read with interest the report on the provision of housing land throughout England which you enclosed with your letter. You are clearly right that there has been a shortfall of supply compared with demand. I was surprised to see that less than half of English counties have current joint land availability studies. This appears to indicate a failure of liaison between those counties and the housebuilding industry. I was pleased to see from your letter that, where the report showed for certain South Eastern counties a shortfall of available land to meet expected demand over the next five years, this is being rectified in the distribution of SERPLAN's increased provision among the counties.

Yet there are indications that the county plans are not always delivered at district level, at least in the sense that the distribution of available land between districts does not match customer preferences. I hope that your proposed reforms of the planning system will, when implemented, help redress the balance.

I was pleased to see that we are at one over the use of Section 52 agreements for planning gain. This seems to me a promising way to win over local opinion to development proposals, perhaps by encouraging environmental improvements paid for by the developer. I agree too that "new villages", where the developer funds infrastructure and community services, are a valuable concept, and welcome your encouragement of them.

Lastly, I note that you plan to write to me about means of ensuring the release of surplus publicly-owned land for development. So far as Government Departments are concerned, you will have seen the Prime Minister's response of 10 February to John Major's minute of 6 February, endorsing the need to keep up the pressure for disposals. I would welcome any help you can offer on this, and on ways of speeding up the disposal of local authority and other publicly-owned surplus land, particularly in inner city areas, and look forward to receiving your thoughts on this.

Yours
Nigel

NIGEL LAWSON

chex.ps/aa/26 UNCLASSIFIED

FROM: A C S ALLAN
DATE: 2 March 1989

PS

SIR T BURNS

cc Sir P Middleton
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Hibberd
Mr O'Donnell
Mr Grice
Mrs Kosmin

R.I.C.S. MONTHLY SURVEY OF THE HOUSING MARKET - SOME FURTHER WORK

The Chancellor has seen Mrs Kosmin's minute to you of 28 February reporting on her work on generating an index based on the R.I.C.S. questionnaire. He thinks this looks very promising, and would be grateful if he could see this new index on a regular basis.

ACSA

A C S ALLAN

chex.ps/aa/16 CONFIDENTIAL

cc Sir P. Middleton
Sir T. Burns
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Hubbard
Mr Grice

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

2 March 1989

Mr Ritchie
Mr O'Brien

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

Dear Nick

HOUSE PRICE ESTIMATES

We had a word this morning about DoE estimates and forecasts of house prices.

As I explained, some of our recent problems over unexpected increases in the RPI have stemmed from revisions to the house price data supplied by DoE to the Department of Employment. At present, the Department of Employment uses what is termed the "quarterly DoE mix-adjusted house price series" in calculating three components of the RPI: mortgage interest paqyments; house insurance; and estate agents' fees. The Department of Employment interpolate between the quarterly figures to get monthly figures. The quarterly series is available only two months after the end of the quarter. In between times the DoE has to provide their best forecast of house prices for the RPI. On two recent occasions, in November last year and January this year, revisions to these forecasts in the light of subsequent actual data produced an unexpected and sharp increase in the RPI.

It would be a great help if your Department could produce a more timely monthly series of house prices which Department of Employment could use in constructing the RPI, and which would help your officials improve their forecasts. I understand that our officials are in touch on this, and I would be grateful if you could ensure this work is given a high priority.

I am copying this letter to Norman Fowler.

Yours
Nigel

NIGEL LAWSON

CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:
Your ref:

CHIEF SECRETARY
REC. -3 MAR 1989
ACTION Mr S Wood
COPIES TO Cx, Mr Anson, Mr Burgner, Mr Phillips, Mr Edwards, Miss Peirson, Mr Potter, Mr Betenson, Mr Call

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

3 March 1989

passed D-

Dear Chief Secretary,

RIGHT TO BUY: MAXIMUM DISCOUNT

You will be aware that there is a limit, currently £35,000, to the cash value of the discount enjoyed by a tenant exercising the right to buy. I am writing to seek your agreement to increasing it to £50,000.

The purpose of the limit is to keep the cash value of discounts within reasonable bounds, and to ensure that tenants of valuable houses do not receive discount out of all proportion to that on a cheaper property. The limit was set at £25,000 in 1980, and increased to £35,000 in January 1987. For the last year I have been under strong pressure from MPs representing constituencies in London and the south east, led by John Wheeler, for a further increase to keep pace with house prices. The limit can be increased by negative order.

I think it is right to be cautious about increasing a limit of this kind, which is an important safeguard. That is why I have not come to you earlier. I am now persuaded, however, that there is a good case for an increase on grounds of equity. The complaint repeatedly made is that tenants in places like central London are effectively losing their right to buy, because prices have run so far ahead of discount. The cases we see are typically tenants on maximum discount in houses and flats worth £60,000 - £80,000, by no means unusual prices these days: it is not a question of tenants complaining because they cannot get full discount on a luxury house.

There is no very scientific way of determining what a revised limit should be. If we uprated the original £25,000 by the index of UK house prices the new limit would be £51,000 - £56,000. Uprating the original £25,000 in line with London house prices would give a figure of £63,000. I think £50,000 would be about right.

CONFIDENTIAL

Increasing discount would incur a deadweight cost, because some tenants who would have bought at the present discounts would pay less. An analysis which has been agreed between our officials shows, however, that capital receipts would be unaffected if there were some 400 to 500 extra sales each year. There is no way of knowing how many extra sales would in fact take place, so a conventional appraisal of the effects on Government expenditure would be a hypothetical exercise. It is clear, however, that the chances of losing receipts are slight, given that there are thought to be between 80,000 and 100,000 tenants in London whose homes would go down in price by about £5,000 if the limit were raised to £50,000. It is difficult to believe that the 400-500 extra sales needed to avoid a loss in capital receipts cannot be achieved.

Given its special interest for tenants in London, I should like to be able to announce this increase as part of the concerted campaign on the anniversary of Action for Cities on 9 March. This move will be specially helpful to London council tenants and fits particularly well with our other urban policy objectives. I am sorry to ask you for an urgent response, but the figures at least are agreed between officials. It would be very helpful to have a response by Tuesday evening.

Copies of this go to the Prime Minister, Malcolm Rifkind, Peter Walker, Tony Newton and Sir Robin Butler.

Yours sincerely,

Deborah Lamb

pp NICHOLAS RIDLEY

(approved by the Secretary of State & signed in his absence) lg2.ds/wood/minutes/112

CONFIDENTIAL

PMP

FROM: S N WOOD
DATE: 6 March 1989

CHIEF SECRETARY

cc Chancellor
Mr Anson
Mr Monck
Mr Phillips
Mr Burgner
Mr Edwards
Miss Peirson
Mr Potter
Mr Revolta
Mr Betenson
Mr Call

Ch/ CST has, rather precipitately, agreed this and written to Mr Ridley before we could get this in to you. OK?

RIGHT TO BUY: MAXIMUM DISCOUNT

Ok

Mr Ridley's letter of 3 March seeks your agreement to increasing the limit on the cash value of the percentage RTB discount to which a tenant is entitled in virtue of the length of his tenure from £35,000 to £50,000. Mr Ridley would like to announce this on 9 March on the anniversary of the launch of Action for Cities.

Recommendation

2. I recommend that you agree to Mr Ridley's request. The increase in house prices in the South East over the past two years means that the limit bites disproportionately in the area. Although it is difficult to predict the effect of an increase on RTB sales, it seems likely that increased volume will offset the effect on total receipts of an increased maximum discount.

Background

3. The cash maximum discount was originally set at £25,000 in 1980, and increased to £35,000 in January 1987. DOE have let us have the following tabulation illustrating the effect of increasing the maximum discounts in line with rises in particular indicators since 1980 and 1987:-

Inflation Measure	Maximum Discount Rate	
	August 1980 £25,000	January 1987 £35,000
(i) GDP deflator	£37,600	£38,400
(ii) UK house prices	£55,700	£51,000
(iii) London house prices	£63,100	£47,400
(iv) Pre-discount price of council house sales	£46,400	£42,800

4. The table shows that Mr Ridley's proposal amounts to a substantial real increase in the value of the maximum discount. The increase he proposes is also ahead of the rise in the pre-discount price of council house sales, although this indicator might itself be depressed by the effect of the maximum fixed in cash terms. The increase he proposes is however well below the increase in house prices more generally.

5. There are arguments against the proposed increase:-

(i) it wastes a card that might still be useful to play in the debate over Mr Walker's flexi-ownership proposals. It might also appear as a regional concession in favour of the south-east, lending weight to the arguments from Wales and Scotland for an experiment with flexi-ownership;

(ii) there would be a deadweight cost as tenants who would have bought anyway can do so more cheaply; and

(iii) to the extent more tenants buy as a result of the concessions, receipts would be increased, but the reduction of the social-rented housing stock eventually available for relets would increase pressure for spending on replacement housing.

6. However, these arguments are not necessarily decisive. As to the first, the maximum discount is mainly relevant to the South East: in other parts of the country, values are not high enough for it to bite. Mr Walker and Mr Rifkind may well take it as a signal to press for acceptance of their regional experiments. If so, you could argue that the RTB scheme is still going well in Wales and is beginning to pick up in Scotland. The time is probably not yet ripe for a full-blown RTB booster package, but if it were it would contain more than a change to the maximum discount: you have other cards to play.

7. As to the second, DOE have admitted to us that they cannot confidently predict the extent of the deadweight cost, but have produced statistics to suggest that it would be likely to be outweighed by additional sales. Deadweight might be incurred in 20% of flat sales and 5% of house sales, where discount percentages are lower. This would give around 2,000 cases, with average deadweight of perhaps £5,000, giving a total of around £10 million. Increasing the discount will reduce the price to tenants of more expensive houses and flats: between 400 and 500 more sales, from a "market" (mainly of flats) in the tens of thousands of cases where the increase in the discount would reduce prices by £5,000 or more, would be needed to offset this. This seems quite likely to happen as a result of the effective price reduction.

8. The strength of the third argument depends on the number of extra sales generated, and is therefore in inverse proportion to that of the second. However, DOE believe that a high proportion of tenants will not wish to exercise RTB anyway, owing to age, low income or dislike of the flat or house they happen to have. Moreover, the demand for social rented housing is not generally accepted as a reason for fine-tuning the RTB scheme regionally, which is what the maximum discount currently does.

9. For these reasons, therefore, we do not think the possible counter-arguments to the increase Mr Ridley proposes outweigh his case for the change. There is of course one further possible disadvantage, namely possible resentment from those who have

completed purchases at the maximum discount who might have benefited by waiting a little longer. However, those who have bought more than 12 months ago will have benefited from substantial capital appreciation, which should mollify them.

Conclusion

10. Mr Ridley's request is awkwardly timed. It would have been much to be preferred if he had waited until the flexi-ownership discussions were over. As it is, to announce a more than 40 per cent increase in the limit at this stage after little more than two years is likely to complicate these discussions. However, on the substance, given the pattern of property values in the south, he has a good case. Circumstances notwithstanding, therefore, I recommend you agree to his proposal. I attach a draft letter to Mr Ridley. The limit can be increased by order, subject to negative resolution procedure.

SW

S N WOOD

DRAFT LETTER FROM CHIEF SECRETARY TO:

Rt Hon Nicholas Ridley AMICE MP

RIGHT TO BUY: MAXIMUM DISCOUNT

Thank you for your letter of 1 March.

I agree with you that the maximum cash amount for the RTB discount is an important safeguard, but like you I appreciate the force of the case for a substantial increase in recognition of the sharp rise in house prices, particularly in the south. I should be content with the maximum limit of £50,000 you propose, and for you to announce on 9 March your intention to make the necessary order.

Copies of this letter go to the Prime Minister, Malcolm Rifkind, Peter Walker, Tony Newton and Sir Robin Butler.

JOHN MAJOR

dti

the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

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

pmp

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

CHIEF SECRETARY	
REC.	-7 MAR 1989
ACTION	Mr S Ward
COPIES TO	CX, Mr Anson, Mr Monck, Mr Phillips, Mr Burgner, Mr Edwards, Miss Peirson, Mr Potter, Mr Revolta, Mr Betterson, Mr Call.

Direct line 215 5147
Our ref
Your ref
Date 7 March 1989

Dear Nick,

RIGHT TO BUY: MAXIMUM DISCOUNT

Thank you for sending me a copy of your letter of 3 March to John Major. Your proposal to lift the maximum discount to £50,000 seems very desirable in view of the movement which has taken place in house prices, and it would fit well with our announcement of 9 March if this could be arranged.

Copies of this go to the Prime Minister, John Major, Malcolm Rifkind, Peter Walker and Sir Robin Butler.

Ever,
Tony

TONY NEWTON

PETABW

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

CH/EXCHEQUER
REC. 8 MAR1989
ACTION MR WOOD
COPIES TO CST
SIR P MIDDLETON
MR ANSON, MR PHILLIPS
MR BURGNER, MR EDWARDS
MRS LOMAX, MR HOLMANS
MR BETENSON, MR JESSOP
MRS CHAPLIN, MR TYRIE
MR CALL

✓9/3

My ref:

Your ref:

BF 13/3

The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1 3AG

8 March 1989

[Mr Wood/Betenson to submit re Ridley 28/2]

PWP

Dear Nigel

SUPPLY OF HOUSING LAND

Thank you for letter of 28 February.

I shall of course be keeping the housing land supply position under close review. But I believe we should have much better means of ensuring adequate land supply if we were to go ahead quickly with reform of the planning system. To do this we need a Bill in the 1989/90 Session.

The proposals which I published in January would help in two main ways. First, they would reinforce the policy guidance that I am able to give at the regional level, on the lines we have already developed in the South East and in London and the metropolitan areas. This enables me to specify quantified targets for housing provision which must then be translated into planned provision at the county and district levels.

Secondly, the requirement which would be placed on all districts to prepare a development plan for the whole of their area will be simpler and speedier than the present cumbersome two-tier system, and it will be much easier for authorities to keep their plans up to date.

The new district plans will also, I believe, help to reconcile local communities to the need for new development. One of the themes I have stressed recently is that while the plans must make adequate and realistic provision for new development, local people will have a more effective say in how and where that provision can best be made. Once the plan has been formally adopted, it will carry considerable weight in individual planning decisions. By providing greater certainty about where new development will and will not be permitted, the new system should help to reduce the hostility which is often generated at present.

So it is extremely important, in my view, that we legislate for this as soon as possible. I hope you will be able to support me in Cabinet tomorrow when I shall argue strongly for the inclusion of a Planning Bill in next Session's programme. That Bill would also give us the opportunity to revise the use of Section 52 agreements and to make provision for unilateral undertakings by developers, which could encourage them to contribute to costs of infrastructure and other services – and which you support.

On the question of surplus land and housing held by Government departments, you will now have seen my letter of 28 February which crossed with yours.

Yours ever

Nick

NICHOLAS RIDLEY

typ3.ul/35/3/ea1/jh.32.16.3

pmp

FROM: T S O'BRIEN
DATE: 16 MARCH 1989

MR HIBBERD

CC: PS\ Chancellor.
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr Grice
Mr Ritchie

DOE HOUSE PRICE DATA AND THE RPI

Mr Ritchie and I attended a meeting yesterday afternoon on this topic with DOE and Department of Employment representatives. The attached letter from Mr Allnutt (DOE) to Ms Craker (DEmp) results.

2. The DOE's material circulated in advance of the meeting was inadequate. But at the meeting Allnutt produced the attached proposal verbally, and had some background figuring. It is still most unsatisfactory that we are being asked to agree to a proposal put in such a spartan fashion, and without a proper numerical example.

3. Having said this, it does appear that the suggestion is quite a sensible one, and probably the best that can be done at the moment. The DOE will be producing, for internal Whitehall consumption at this stage, a monthly mix-adjusted house price index. This will appear with a lag of one month. Although later than private sector data such as the Halifax, the production is dependent on receipt of data from a variety of building societies and this accounts for most of the delay. In addition to this internal series, the DoE will use the Halifax series to project their number forward the one period required for the RPI.

4. There will still be revisions to data, but given the present data constraints these look unavoidable. It would have been useful to view back-calculations suggesting the potential scale of these revisions. But the expectation is they will be fairly small, and thus have relatively little impact on the RPI.

5. My other reservation, pointed out in the proposed draft reply attached, is that these new estimates may show a different seasonal pattern over the coming months than present in the implied data used last year. Although it is unlikely that this would have a discernible impact on the RPI inflation rate, it is again something which should ideally be assessed in advance of the change.

6. I would welcome any comments, in the course of tomorrow, on our response.

Robin

T S O'BRIEN

Department of the Environment
Room N2/11
2 Marsham Street London SW1P 3EB
Telex 22221 Direct Line 01-276 4339
Switchboard 01-276 3000
GTN 276 4339

Ms A Craker
Department of Employment
Caxton House
Tothill Street
SW1

16 March 1989

Dear Alex,

HOUSE PRICES FOR THE RETAIL PRICES INDEX

At our meeting on Wednesday afternoon I agreed to write recording some of our conclusions.

We agreed that the recent revision to the methodology for producing house price indicators for the RPI was a significant improvement.

I outlined a possible further revision. This would involve DOE providing ED with house price figures for individual months. These would be benchmarked on the quarterly mix adjusted index. The latest value of that index would be inflated to month n-1 (where n is the RPI reference month) using a monthly version of our mix adjusted index, and then to month n using the Halifax mix adjusted index. These monthly figures would be subject to revision:

(a) when the mix adjusted index figure for month n became available, and

(b) when the next quarter's mix adjusted index became available.

If a significant proportion of a month's BSM data were to be supplied late by building societies we might also need to revise the house price figure for that month to reflect a revision of the monthly index to take account of the late data.

We would still forward our economists' assessment of likely future house price changes to you though these would no longer play a part in calculating the house price figures for use in the RPI.

The Halifax index would have to be used to estimate the change in prices in the last month because there is no prospect of building societies providing the BSM data in time for us to produce a monthly mix adjusted index to the RPI schedule. However we could look at the possibility of speeding up the production of monthly mix adjusted indices as that might increase their usefulness for other purposes.

It was, I think, generally agreed that this additional revision would represent a further improvement. You wished to give this some further thought before confirming that you want us to proceed. If you confirm by close of play on 17 March, we would aim to use the new methodology to provide the figure for the March RPI and at the same time provide a 12 month time series of estimates produced on this basis. You confirmed that you would not want us to seasonally adjust the estimates.

It was also generally agreed that the monthly mix adjusted index could be of more general use and that, while it should not be published before we have more experience of its characteristics, it would be made available as appropriate in Whitehall.

Copies of this letter go to those present at the meeting.

Yours

Shekhar Nandy

pp D E ALLNUTT

DRAFT LETTER:

Mr D Allnutt
Room N2/11
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

Ref: DEF/V/3

Dear Mr Allnutt

HOUSE PRICES FOR THE RETAIL PRICES INDEX

Thank you for the copy of your letter of the 16 March to Alex Craker.

We welcome the efforts of yourself and Mr Nandy to improve the methodology for producing house price indicators for the RPI. As I indicated at the meeting, it would have been useful to have had a paper setting out your latest proposal, and attached figuring you have done. This would provide a firmer base for assessing your suggestion.

Notwithstanding this, it seems on the face of it that your proposal should produce an improvement in the situation. We are also interested in the production of a monthly mix-adjusted for purposes not related to the RPI, and the more timely this can be produced the better.

One reservation I mentioned at the meeting is that the seasonal pattern of the new series may be significantly different from that used in last year's RPI calculations. Whilst it is true that the new figures should give the best view of what is actually happening now, they may give an unusual picture of the change on a year earlier, in RPI terms. However, I am sure the DE will bear this in mind, along with all the other factors, when taking their decision.

Yours sincerely

T S O'BRIEN

Spoken — [illegible] or like a short letter on a return. This [illegible]

CX

This is a re-draft by me. You could use it as a speaking note (instead of writing) when you see Mr R.

AA

Spoken, will do fine.

~~DRAFT~~ LETTER FROM THE CHANCELLOR TO:

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

For signature

HOUSE PRICE ESTIMATES

We had a word this morning about DoE estimates and forecasts of house prices. As I explained, ~~I am not sure if you will be aware that~~ some of our recent problems over unexpected increases in the RPI have stemmed from revisions to the house price data supplied by DoE to the Department of Employment. At present, the Department of Employment uses what is termed the "quarterly DoE mix-adjusted house price series" in calculating three components of the RPI: mortgage interest paqyments; house insurance; and estate agents' fees. The Department of Employment interpolate between the quarterly figures to get monthly figures. The quarterly series is available only two months after the end of the quarter. In between times the DoE has to provide their best forecast of house prices for the RPI. On two recent occasions, in November last year and January this year, revisions to these forecasts in the light of subsequent actual data produced an unexpected and sharp increase in the RPI.

2. It would be a great help if your Department could produce a more timely monthly series of house prices which Department of Employment could use in constructing the RPI, and which would help your officials improve their forecasts. I understand that our officials are in touch on this, and I would be grateful if you could ensure this work is given a high priority.

3. I am copying this letter to Norman Fowler.

NIGEL LAWSON

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

BF 14/4

The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1 3AG

CH/EXCHEQUER
REC. 20 MAR1989
ACTION MR HIBBERD ✓20/3
COPIES TO SIR P MIDDLETON, SIR T BURNS, MR SCHOLAR, MR ODLING-SMEE, MR PERETZ, MR GRICE, MR RITCHIE, MR O'BRIEN

17 March 1989

Dear Nigel

Your letter of 7 March referred to revisions to house price estimates which have led to unexpected increases in the RPI.

As I expect you know, my officials are considering with their colleagues in the Treasury and the Department of Employment some possible further improvements in methodology to reduce the risks of such problems in future. This is certainly an area of work to which I attach high priority, and I have asked my officials to report to me as soon as possible on the outcome of these discussions. I will of course write further at that stage.

A copy of this letter goes to Norman Fowler.

Yours ever
Nicholas

NICHOLAS RIDLEY

Mike/Neil.
Pls ask Mr Hibberd's office when we can expect Mr Ridley to come back to us further on this.

fim2.cr/Kosmin/M.23

Thanks:

FROM: RUTH KOSMIN
DATE: 21 March 1989

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Hibberd
Mr O'Donnell
Mr Grice

Ch/ Slightly less depressed market than last month, but Feb seems usually to be a pick-up on January.
DIS

HOUSE PRICES: RICS SURVEY

I attach a chart which includes the latest results from the monthly Royal Institution of Chartered Surveyors housing market survey for England and Wales for the three months ending February 1989.

2. The results for the quarter ending in February show a consistent picture with the figures from the three previous survey results. The latest figures are based on a total of 164 contributing agents, and the following breakdown shows the percentage of agents reporting in each of the categories:-

		%	
i.	very much higher (approx 8% or more)	3.6	32.1%
ii.	much higher (approx 5%)	10.4	
iii.	slightly higher (approx 2%)	18.1	
iv.	the same	51.1	68%
v.	lower	16.9	

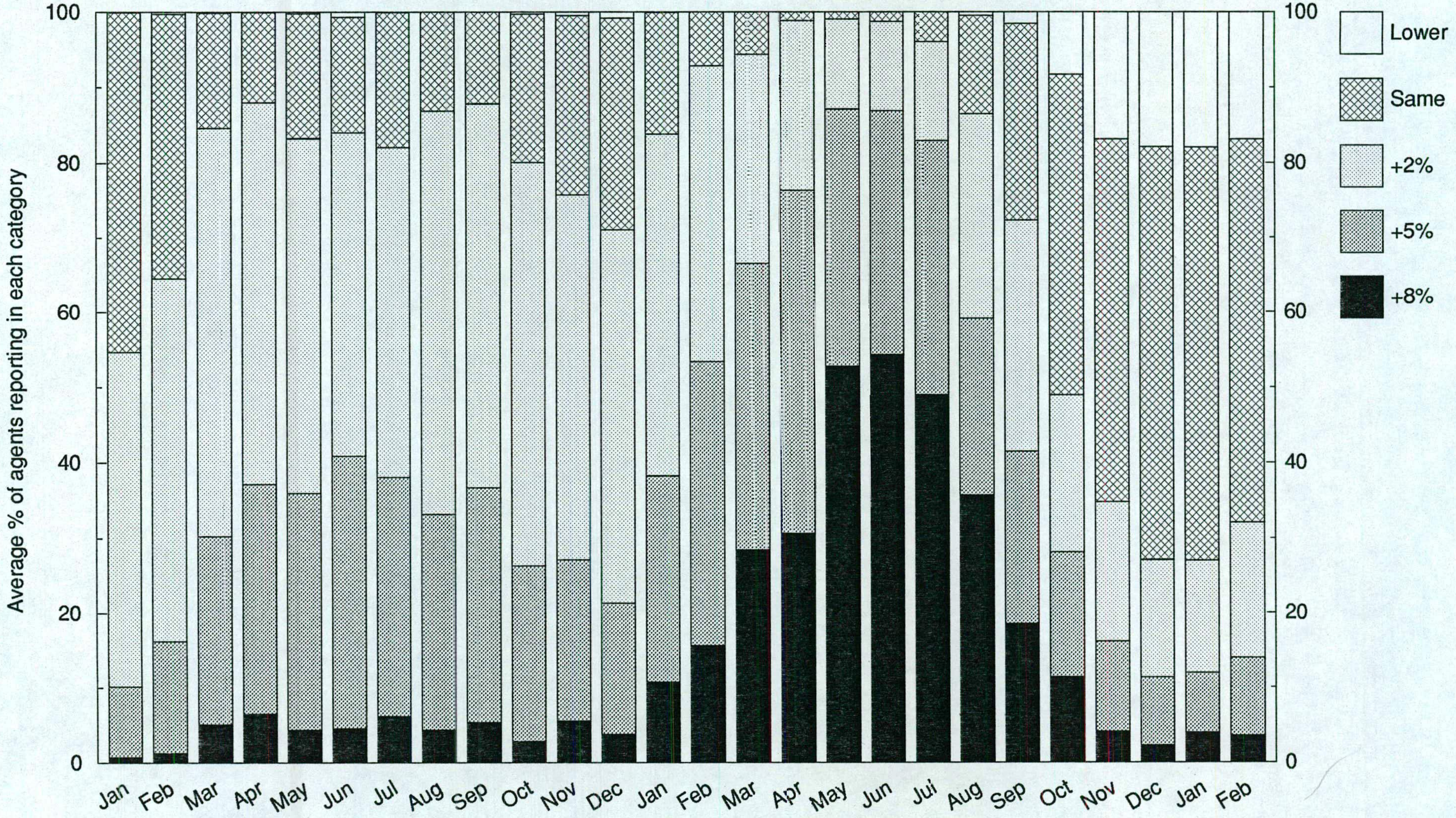
3. I also attach copies of the general comments which accompanied the latest survey. The references to East Anglia are based on the rotating survey of the regions, one of which is set out in the main survey each month. You should be aware, however, that only 5 estate agents contributed in the East Anglian region which was surveyed this month, and the average number of properties sold per agent in the region in the last three months was only 20. The sample is thus not large.

4. Mr Allan's minute to Sir T Burns, dated 2 March 1989, indicated that you would like to see my computed index, based on the RICS questionnaire, on a regular basis. I therefore attach the updated versions of Charts A, B and C which were appended to my minute of 28 February 1989 to Sir T Burns. Chart A compares the computed RICS index with the Halifax index, in terms of 12 month percentage changes. Similarly, Charts B and C compare the new index with both the approvals and the completions index from the Department of the Environment.

Ruth Kosmin

RUTH KOSMIN
FIM2

Agents' Comparison With Prices Three Months Ago



1987 - 1989

RICS NEWS

The Royal Institution
of Chartered Surveyors
12 Great George Street
Parliament Square
London SW1P 3AD
Telephone: 01-222 7000
Telex: 915443 RICS G
Facsimile: 01-22 294 30

Reference PR55/88-89
Date 16 March 1989
Embargo 00.30 hrs 21 March 1989

For further information please contact Zena Howard

"DULL BUDGET WILL FAIL TO BRIGHTEN HOUSING MARKET"

RICS HOUSING MARKET SURVEY FOR ENGLAND AND WALES FOR THE QUARTER ENDING FEBRUARY 1989

"The Chancellor has failed to take the opportunity of the budget to revive the property market", says The Royal Institution of Chartered Surveyors in its survey for the quarter ending in February.

First time buyers in particular were hoping for some reprieve in this year's budget - raising the ceiling or abolishing stamp duty was a possibility, but the Chancellor obviously wants to hold back an already sluggish market over much of the South of England.

The North however, continues to buck national trends. Demand for all types of property remains high and prices continue upwards; high mortgage rates have had little effect.

Of the 164 agents who contributed, only four per cent report increases of eight per cent, while 10 per cent report increases of five per cent. 17 per cent report a decrease in prices.

cont/...

A special survey of East Anglia shows a startling change in the property scene; once a boom area, activity has slowed remarkably since the removal of dual mortgage interest relief in 1988. There is a dearth of first time buyers with consequent breaking of chains in the lower price ranges.

Peter Miller, RICS Housing Market Spokesman comments: "The budget failed to take the opportunity to help the residential property market and first time buyers will be especially disappointed. A rise in the threshold at which stamp duty becomes payable would have helped new buyers and eased the market, particularly in the South of England."

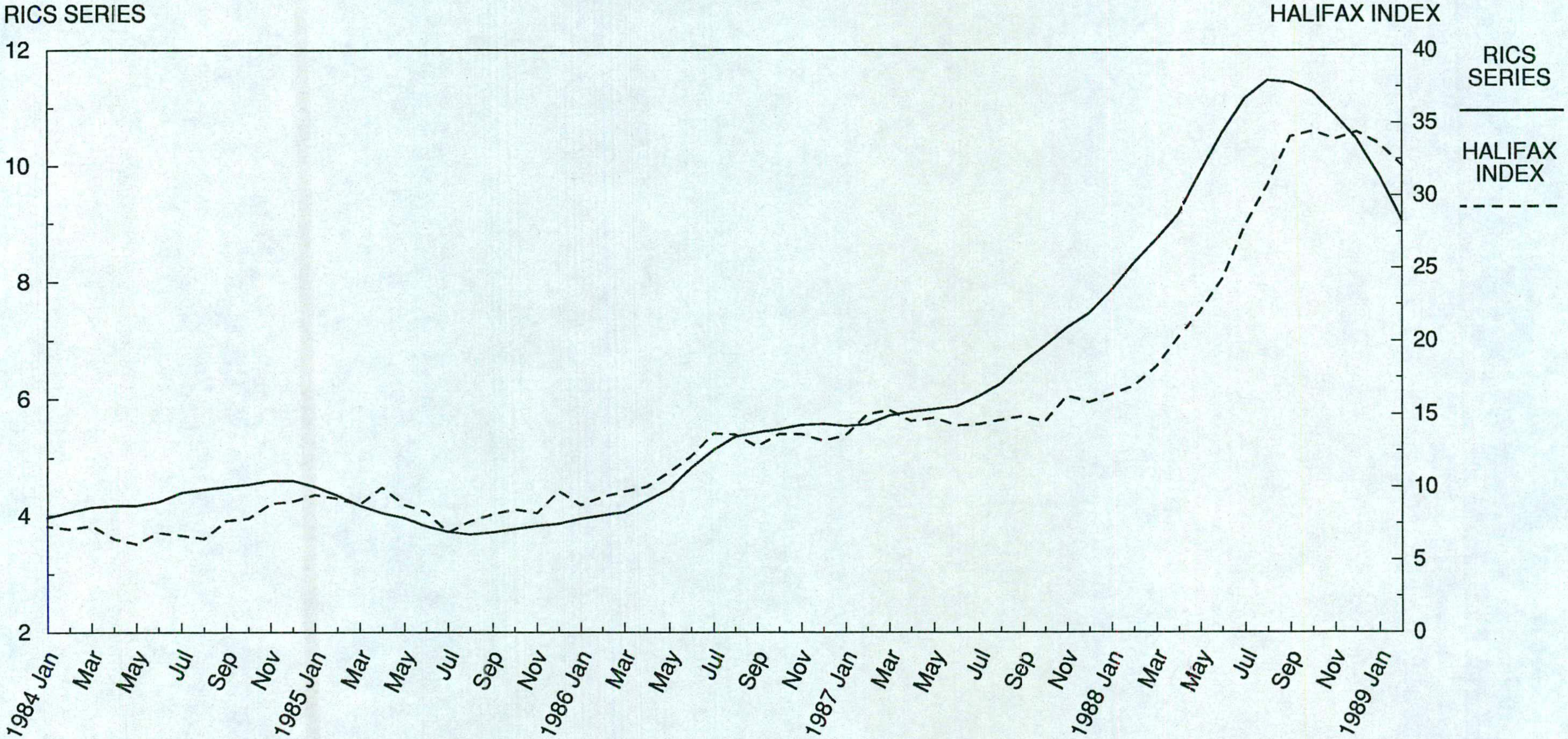
Mr Miller concluded: "Mortgage interest rates are likely to remain at their present levels for the foreseeable future. Many families will need to budget tightly as a result."

E N D S

CHART A

RICS INDEX

(12 MONTH PERCENTAGE CHANGES)



1984 -1989

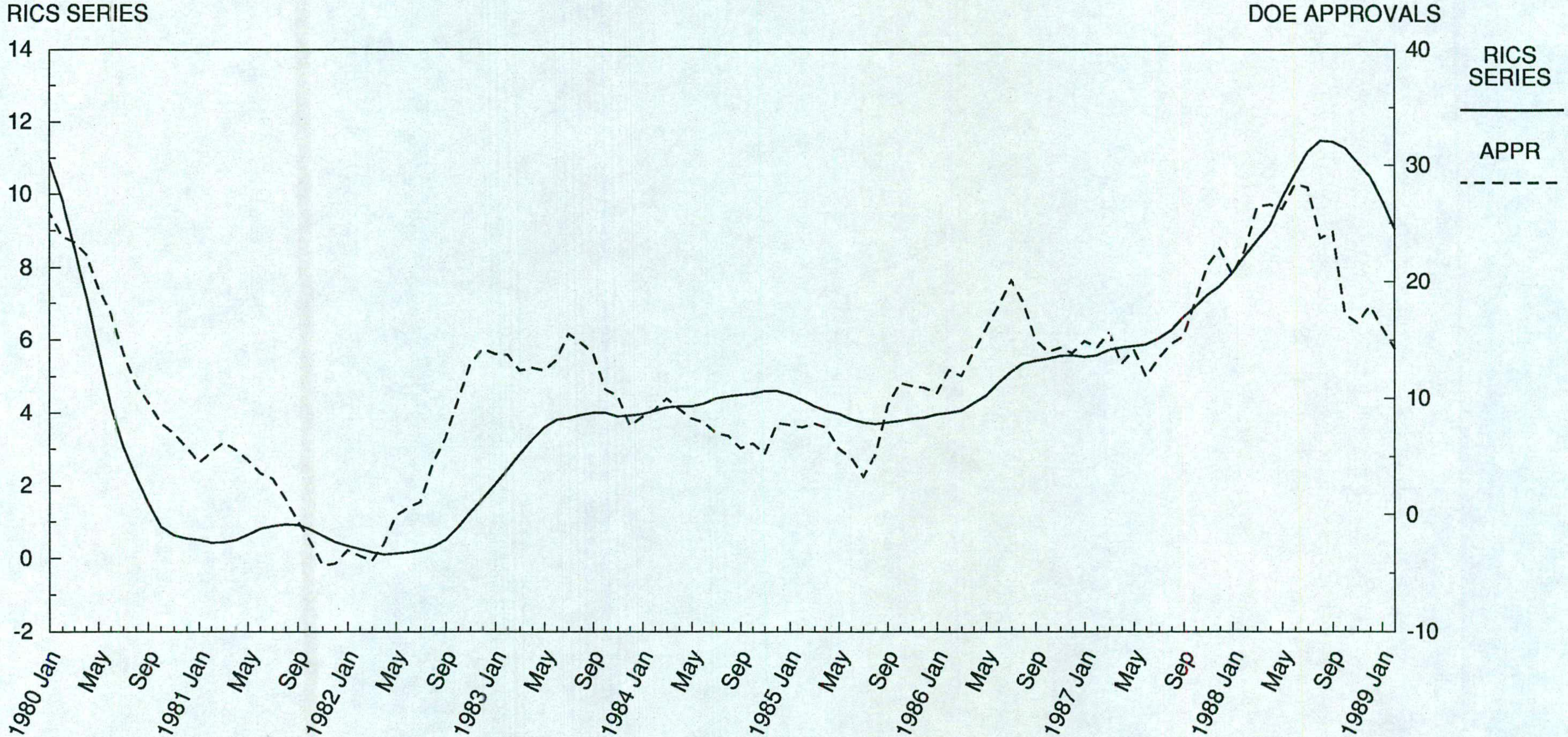
RICS SERIES AS IN TABLE 1

(November 1978 = 100)

CHART B

RICS INDEX

(12 MONTH PERCENTAGE CHANGES)



1980 - 1989

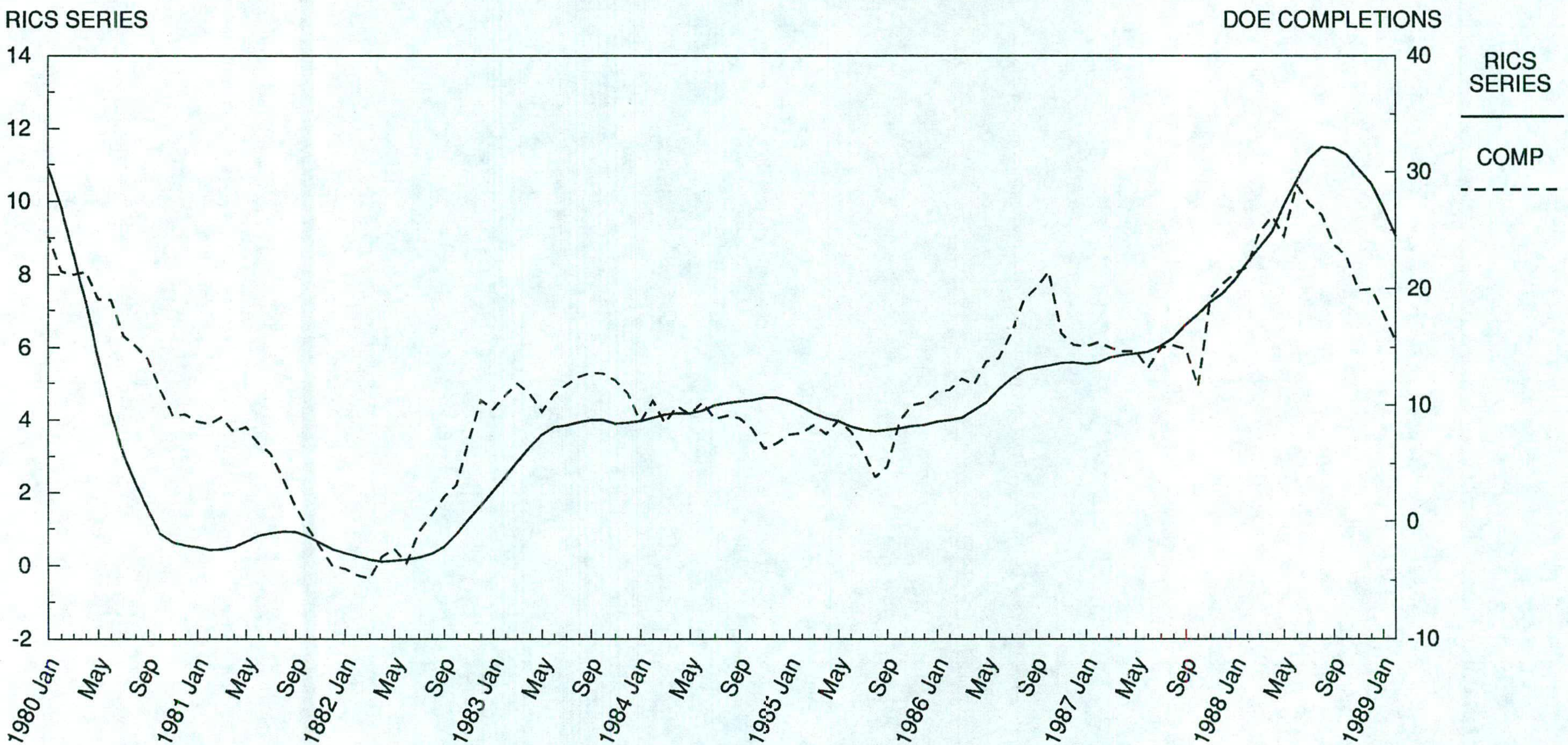
RICS SERIES AS IN TABLE 1

(November 1978 = 100)

CHART C

RICS INDEX

(12 MONTH PERCENTAGE CHANGES)



1980 - 1989

RICS SERIES AS IN TABLE 1

(November 1978 = 100)

chex.ps/ds/22 UNCLASSIFIED

FROM: D I SPARKES

DATE: 22 March 1989

MS R KOSMIN

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Peretz
Mr Hibberd
Mr O'Donnell
Mr Grice

PMP

HOUSE PRICES: RICS SURVEY

The Chancellor has seen and was grateful for your minute of 21 March attaching the latest results from the monthly Royal Institution of Chartered Surveyors housing market survey.

D.S.

DUNCAN SPARKES

chex.ul/aa.ph/20 **UNCLASSIFIED**

FROM: A C S ALLAN
DATE: 22 MARCH 1989

MR O'BRIEN

cc Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr Gieve
Mr Hibberd
Mr Pickford

RPI AND OWNER OCCUPIER HOUSING COSTS

The Chancellor would be grateful if you could produce, if it is possible, an index for the UK for the RPI excluding mortgage interest payments but including rough estimates of imputed rents, based on something like the US or German methodology. It would be helpful to know what the current twelve month rate o~~n~~f inflation would on this basis, and as much of a backg~~round~~run as is practicable. He would like this information if possible before he goes to the TCSC on Monday 10 April.

2. On a related point, Department of Employment seem to vary between referring to the index "excluding mortgage interest payments" and "excluding owner occupied housing costs". What exactly is the basis for the figures we use? Even if they exclude insurance costs, surely they do include rates?

A C S ALLAN

CONFIDENTIAL

CHIEF SECRETARY

REC.	- 6 APR 1989
ACTION	Mr S Wood
COPIES TO	Ch. Mr Anson, Mr Phillips, Mr Edwards, Mr Potter

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

5 April 1989

PWP

Dear Roger,

COUNCIL HOUSE RENTS

The Prime Minister held a meeting on Tuesday 4 April to discuss your Secretary of State's minutes of 17 March and 3 April, and the Secretary of State for Wales' minute of 15 March. Those present were your Secretary of State, the Secretaries of States for Wales and Scotland, the Chief Secretary, Treasury, the Ministers of State for Housing and for Social Security, Professor Brian Griffiths (Policy Unit) and Richard Wilson, Anthony Langdon and Andrew Wells (Cabinet Office).

I should be grateful if you and copy recipients would ensure that this record of the discussion is seen only by those with a clear need to know.

Your Secretary of State said that his two minutes reflected the outcome of the further work commissioned at the Prime Minister's meeting on 22 February. They discussed two separate schemes for setting guideline rent increases within the new financial regime for council housing which was due to come into effect on 1 April 1990. His minute of 3 April discussed a possible system based partially on the fair rents which applied to many existing lettings in the private rented sector. In his view, such a system had a number of serious shortcomings: the Government had abolished fair rents for new lettings in the private rented sector; fair rents were based on a definition which explicitly excluded the effects of scarcity, and therefore ignored a major factor in true market values; and reliable data on fair rents were not available below the regional level. For these reasons he could not recommend this option to colleagues.

His preferred option was set out in his minute of 17 March. It had three main features. First, a national average rent guideline increase would be determined in the Public Expenditure Survey (PES) each year. Second, each authority's average Right To Buy (RTB) sale price would be used to distribute the resulting total rent bill between authorities. Finally, damping factors would be used to restrict the resulting changes in rents within a band: the illustrative figures attached to his minute assumed that no authority would be allowed a real reduction in rents, or be required to make a real increase greater than 16 per cent. This system would link rents to the market in housing, as reflected in RTB prices. It would also bear less hard on districts where higher rents were already being charged and require those authorities with unreasonably low rents to make real increases. He sought colleagues' agreement to adopt this basis for setting guideline rent increases under the new financial regime and to announce this during the Commons Committee Stage on the Housing and Local Government Bill.

In discussion the following points were made:

a. The system proposed by the Secretary of State for the Environment would involve major intervention by the Government in the setting of council rents. There was a case for a much less interventionist approach, which also recognised that council tenants had done far less well financially than owner occupiers in the post-war period. Such an approach might require most authorities to increase rents only in line with inflation. Those authorities which had subsidised council housing from rates in the past might be expected to make real increases to remove this element of subsidy.

b. However, such an approach would continue the existing link between rents and the historic costs of providing council housing. There were strong arguments against that. Rents would remain unreasonably low in many areas, creating undue demand for council housing, particularly in areas of housing stress. Tenants would have little or no incentive to move into owner occupation, and there would be pressure for new building in the council sector, contrary to Government policy. It would also make the task of bringing inflation down more difficult.

c. In contrast, the Secretary of State for the Environment's proposals had substantial advantages. They would link rents to the market demand for housing, particularly in the stress areas such as London. At the same time they would require those authorities which had kept their rents unreasonably low to make progressive real increases until a more equitable pattern of rents was established. The Government would retain the flexibility to decide how far and how fast rents should move in the annual PES round .

d. Real rent increases might however bring more tenants within the scope of housing benefit. Within the new financial regime for council housing the overall effect on Exchequer spending would still be favourable, because the additional revenues generated would be set off against Government subsidies towards housing benefit costs. There could nevertheless be an unwelcome increase in the housing benefit caseload. This was a consequence of the Government's general policy of favouring subsidies to people over subsidies to bricks and mortar. But there might be a case for arrangements to ensure that all the

Ministers with an interest were involved in the annual discussions of the rent guidelines.

The Prime Minister, summing up the discussion, said that the meeting accepted that a system of rent guidelines based on fair rents would have a number of drawbacks and should not be pursued. Ministers had considered an alternative system which would require most authorities to increase rents only in line with inflation, with larger increases for the minority of authorities which had subsidised council housing from the rates in the past. But this approach would maintain the existing link between rents and the historic costs of providing housing, with the serious disadvantages set out in the discussion. The proposals put forward by the Secretary of State for the Environment on 17 March, based on RTB sale prices, avoided these disadvantages. They would also link rents to the market demand for housing, and require the highest increases from those authorities which had kept their rents at unreasonably low levels in the past. At the same time, the Government would retain the flexibility to take decisions annually in the PES round. Ministers therefore approved the proposals put forward by the Secretary of State for the Environment, which were the best of the options which the group had considered, and agreed that he should announce them during the Commons Committee Stage on the Housing and Local Government Bill. It was particularly important that the presentation was right: the Secretary of State would need to give thought to this.

I am copying this letter to the Private Secretaries to the other Ministers present at the meeting, to the Private Secretary to the Secretary of State for Social Security, to the others who attended, and to Trevor Woolley (Cabinet Office).

Yours,
Paul

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment

tom/ch-rpi-5.4 **UNCLASSIFIED**

Thanks. (File with TCSC stuff)

Rex, you pse.

FROM: TOM O'BRIEN (EA1)
DATE: 6 APRIL 1989
X 5401

CHANCELLOR OF THE EXCHEQUER

cc : Sir Peter Middleton
Sir Terence Burns
Mr Scholar
Mr Sedgwick
Mr Gieve (IDT)
Mr Hibberd (EA1)
Mr Pickford (EB)

RPI AND OWNER OCCUPIER HOUSING COSTS

You asked (minute of 22 March attached) for a measure of retail price inflation excluding mortgage interest payments but including an alternative measure such as an imputed rent for owner-occupation.

2. I have just returned from leave and have had little time to conduct an extensive analysis of different options over a long period of the past. But table A attached shows, for the last two years, twelve-month inflation rates with three different measures of owner-occupier housing costs. The all items RPI and RPI excluding MIPs inflation rates are shown for reference. The three options are;

(A) using the present RPI rent index as a proxy for imputed rent;

(B) using house prices as the appropriate indicator;

(C) using a fixed real interest rate applied to outstanding mortgage debt.

In each case I have made the simplifying assumption that the price index enters the RPI with the same weight as the present MIPs index. The calculations can only be approximate estimates, but should give a flavour of the various options available.

3. <u>**Option A**</u> proxies owner-occupier rents with the current rent index component of the RPI. The latter is dominated by Local Authority rents, but contains some private sector element. Such an approach has been ruled out in the past because of:

(a) the significant qualitative differences between the stock of owner-occupied housing and housing in the rented sector;

UNCLASSIFIED

(b) the highly regulated nature of rents in the area measured.

This methodology is nevertheless close to that adopted in the United States (where housing costs have a 42 per cent weight in the CPI, compared to about 17½ per cent in the RPI). But the housing market in the US is significantly different from the UK with, for example, around 35 per cent of housing units being renter occupied.

4. <u>Option B</u> simply uses interpolated house price data (DoE's quarterly mix-adjusted house price index as the base) for a price index. This would be appropriate if one were following the acquisitions approach which views the purchase of a house along the same lines as the purchase of anything else. Something similar is used in the Australian CPI. The approach is widely regarded as unsatisfactory, not least because it ignores the investment aspect of housing, and is unlikely to track actual current expenditure on housing by owner-occupiers at all well.

5. <u>Option C</u> is a specific version of the so-called "current expenditure approach", attempting to capture real mortgage payments (and so exclude the saving which can be associated with house purchase). It is simplified because it assumes an arbitrary fixed real interest rate, and applies this to an index of outstanding mortgage debt. This approach has been criticised on the grounds of the fixed interest rate assumption being unreasonable, and that it may bear little relationship to the public perception of movements in housing costs. It is possible to use a variable real interest rate, but this introduces two additional difficulties. First there is the choice of what indicator to use to deflate the nominal interest rate. Second the possibility of negative real interest rates, common through most of the 1970s, is problematical. Although this is not a problem in itself it could conceptually give rise to a <u>negative weight</u> for the price indicator, which would run counter to RPI methodology.

6. You can see that the results of the three approaches fall within the lower bound of the RPI excluding MIPs and the upper bound of the all-items RPI. Using a rent indicator, Option A, produces a result over the last two years little different from the RPI excluding MIPs, with a rate of 5.7 per cent in February of this year. This results from a combination of the relatively low weight attached to the component, and the fact that rent inflation is not seriously out of line with the RPI as a whole.

7. Using house prices, Option B, gives an inflation rate close to 7 per cent in January and February, about ½ per cent lower than the all-items inflation rate. Over the last two years this measure has usually been higher (sometimes significantly so) than the all-items figure. This obviously reflects the very high house price inflation, which touched 30 per cent or so through 1988. And Option C suggests a February figure of around 6½ per cent, between the two other options but well below the present all-items rate.

8. These basic approaches were presented by the Treasury in a working paper to the RPIAC in 1986. The Committee felt that no single approach was clearly the best, and chose to maintain the MIPs system which was first introduced in 1975. In addition to the figures I have calculated I include two charts prepared at the time of the 1986 exercise with a longer time series for alternative measures.

9. In a period of widely varying nominal interest rate the present system gives the most variable inflation rates of any of the options considered. Over the last two years, for example, the variation in the all-items inflation rate has been three times as great as the series excluding MIPs. And the variation in the alternative series computed here for the last two years is also less than with the all-items rate. Although it depends on the particular sub-periods selected, it is probably the case that the alternative measures generally would tend to be less, or at least no more variable than the present measure.

10. The question of how these options would affect the level of the inflation rate also needs to be borne in mind, however. Option B implies the highest inflation rate because of the boom in house prices over this period; the differential is particularly marked in 1988. Option A (based on rents) implies the lowest level of inflation. It is difficult to make systematic comparisons with the present MIPs based method because of what has been happening to interest rates. It implies the lowest inflation rate in early 1988 when interest rates were falling, but the highest level in early 1989 after the interest rate increases in the second half of last year.

11. It might bear repeating that these calculations are rather rough and ready. If you wanted to make reference to such findings in the context of the TCSC hearings it might be best to use the qualitative rather than precise quantitative results. For example whilst we could have some confidence in asserting that the currently measured inflation rate is higher than it would be if another reasonable measure of owner-occupiers costs were used, one would be far less certain of putting a margin of 1 per cent on the difference.

12. On the related point you raise, about terminology, the basis of our figures on the RPI excluding mortgage interest payments is exactly that - excluding mortgage interest payments. The figures thus include all other housing costs, taking in insurance costs and domestic rates amongst other items. The phrase "excluding owner occupied housing costs" has been used interchangeably. It is loose, but is useful in general discussion of the measurement problem (1986 RPIAC documentation, for example) and in international comparisons (where again the wider terminology is required). I will ask the DE to use the phrase "excluding mortgage interest payments" wherever possible should you so wish.

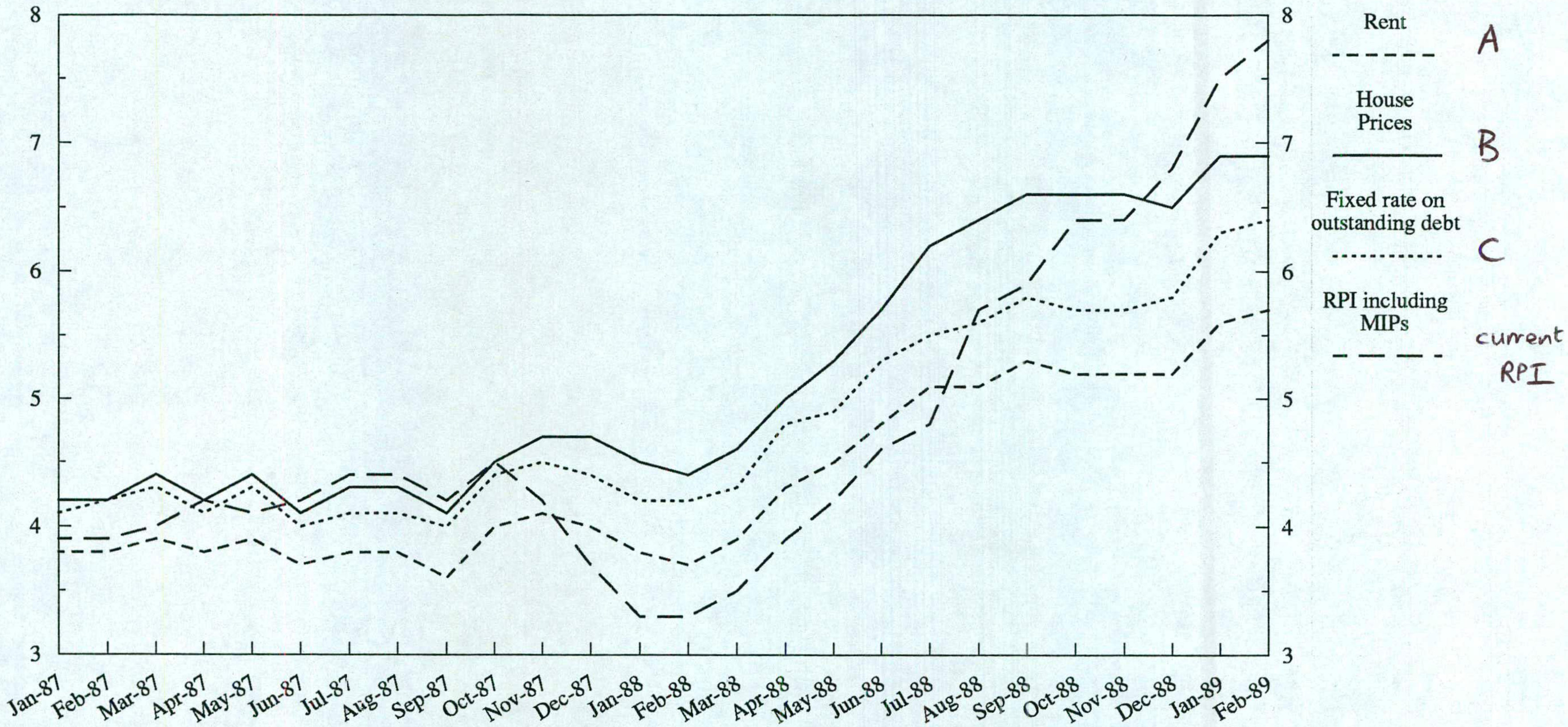
Tom O'Brien

T S O'BRIEN

TABLE A **Inflation Rates with alternative measures of owner-occupier housing costs**

			RPI including alternative measures of owner-occupier housing costs			
			A	B	C	
		RPI excluding MIPs	Rent	House Prices	Fixed rate on outstanding debt	RPI including MIPs
1987	Jan	3.6	3.8	4.2	4.1	3.9
	Feb	3.7	3.8	4.2	4.2	3.9
	Mar	3.8	3.9	4.4	4.3	4.0
	Apr	3.6	3.8	4.2	4.1	4.2
	May	3.8	3.9	4.4	4.3	4.1
	Jun	3.5	3.7	4.1	4.0	4.2
	Jul	3.7	3.8	4.3	4.1	4.4
	Aug	3.7	3.8	4.3	4.1	4.4
	Sept	3.5	3.6	4.1	4.0	4.2
	Oct	3.9	4.0	4.5	4.4	4.5
	Nov	4.0	4.1	4.7	4.5	4.2
	Dec	4.0	4.0	4.7	4.4	3.7
1988	Jan	3.9	3.8	4.5	4.2	3.3
	Feb	3.6	3.7	4.4	4.2	3.3
	Mar	3.8	3.9	4.6	4.3	3.5
	Apr	4.2	4.3	5.0	4.8	3.9
	May	4.4	4.5	5.3	4.9	4.2
	Jun	4.7	4.8	5.7	5.3	4.6
	Jul	5.0	5.1	6.2	5.5	4.8
	Aug	5.0	5.1	6.4	5.6	5.7
	Sept	5.2	5.3	6.6	5.8	5.9
	Oct	5.1	5.2	6.6	5.7	6.4
	Nov	5.1	5.2	6.6	5.7	6.4
	Dec	5.1	5.2	6.5	5.8	6.8
1989	Jan	5.5	5.6	6.9	6.3	7.5
	Feb	5.7	5.7	6.9	6.4	7.8

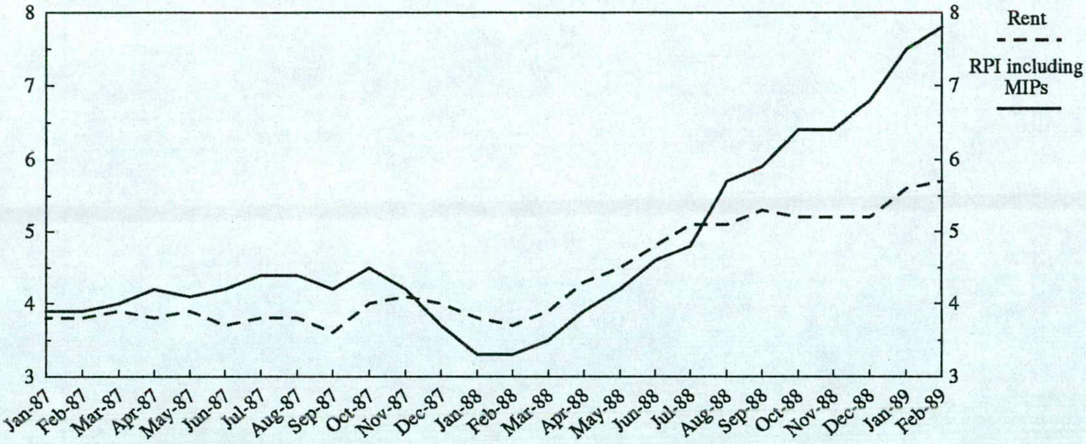
RPI inflation, with alternative measures of owner-occupier housing costs



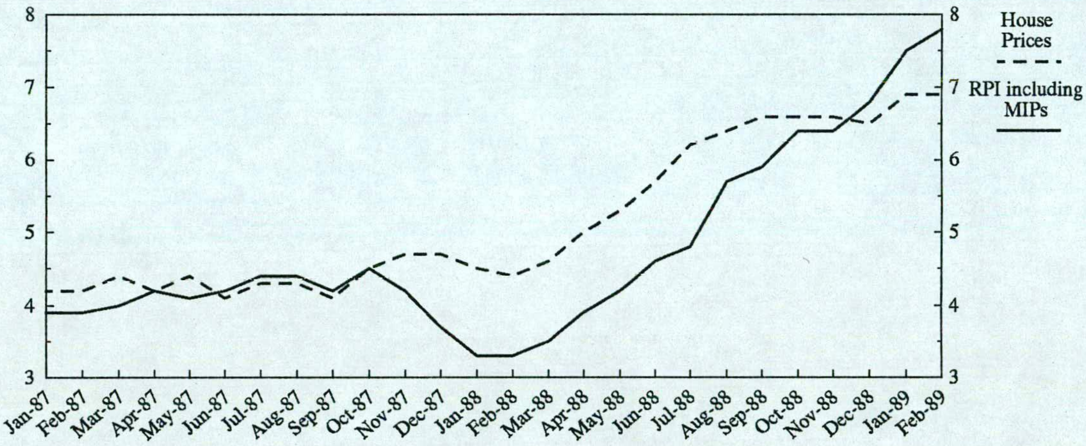
measures individually presented

RPI inflation, with alternative measures of owner-occupier housing costs

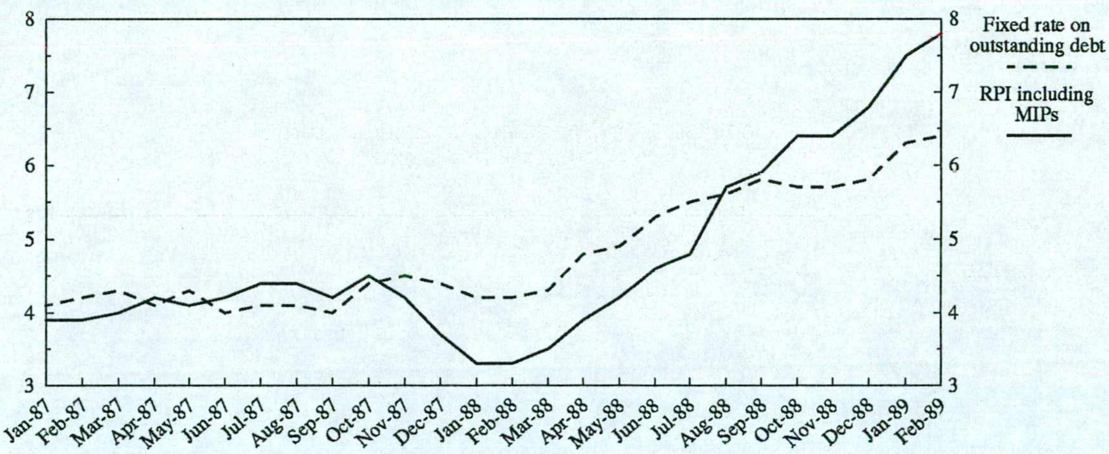
OPTION A



OPTION B



OPTION C

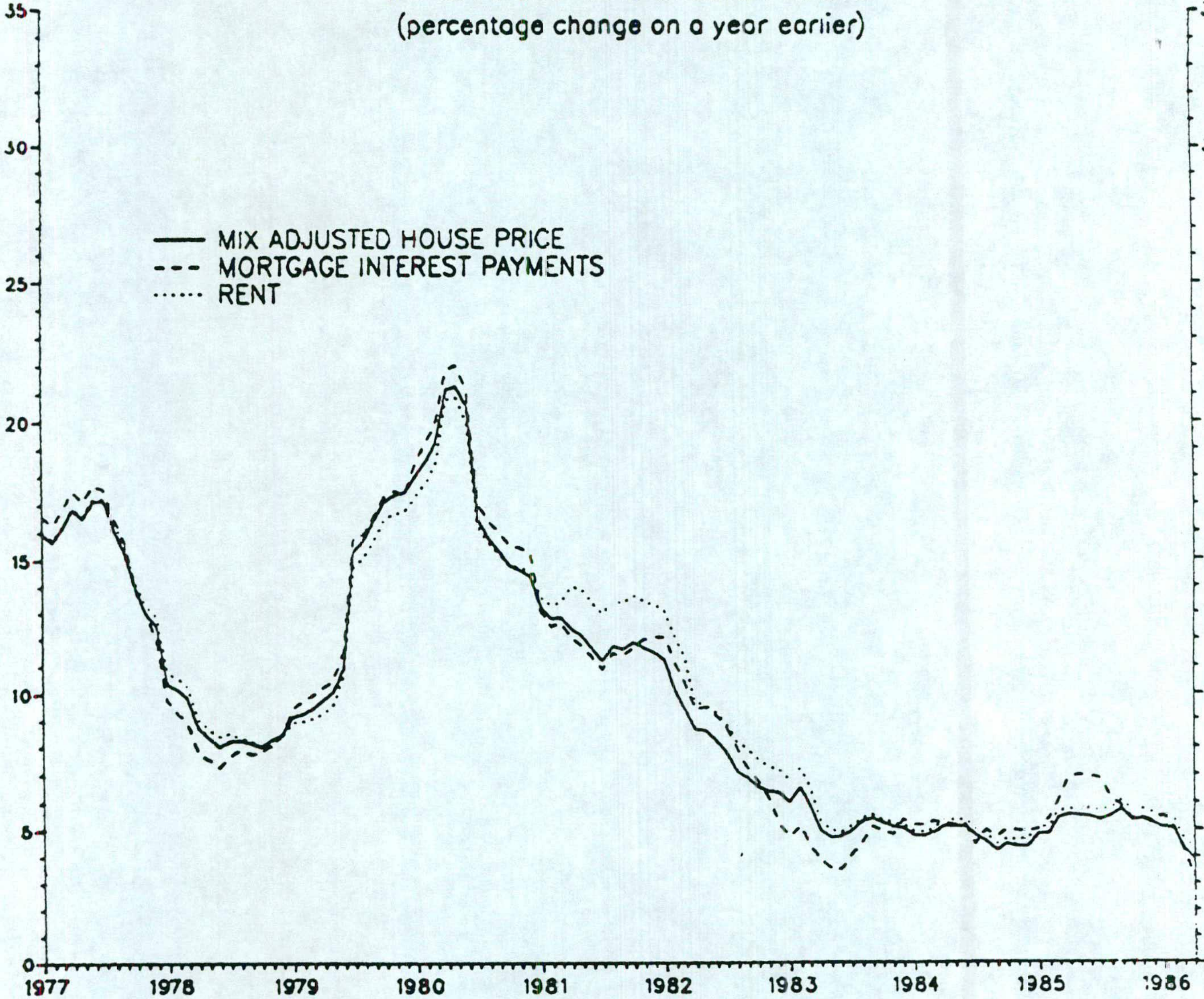


Treasury working paper for 1986 RPIAC

CHART B

RPI WITH ALTERNATIVE PRICE INDICATORS FOR OWNER OCCUPIERS SHELTER COSTS

(percentage change on a year earlier)

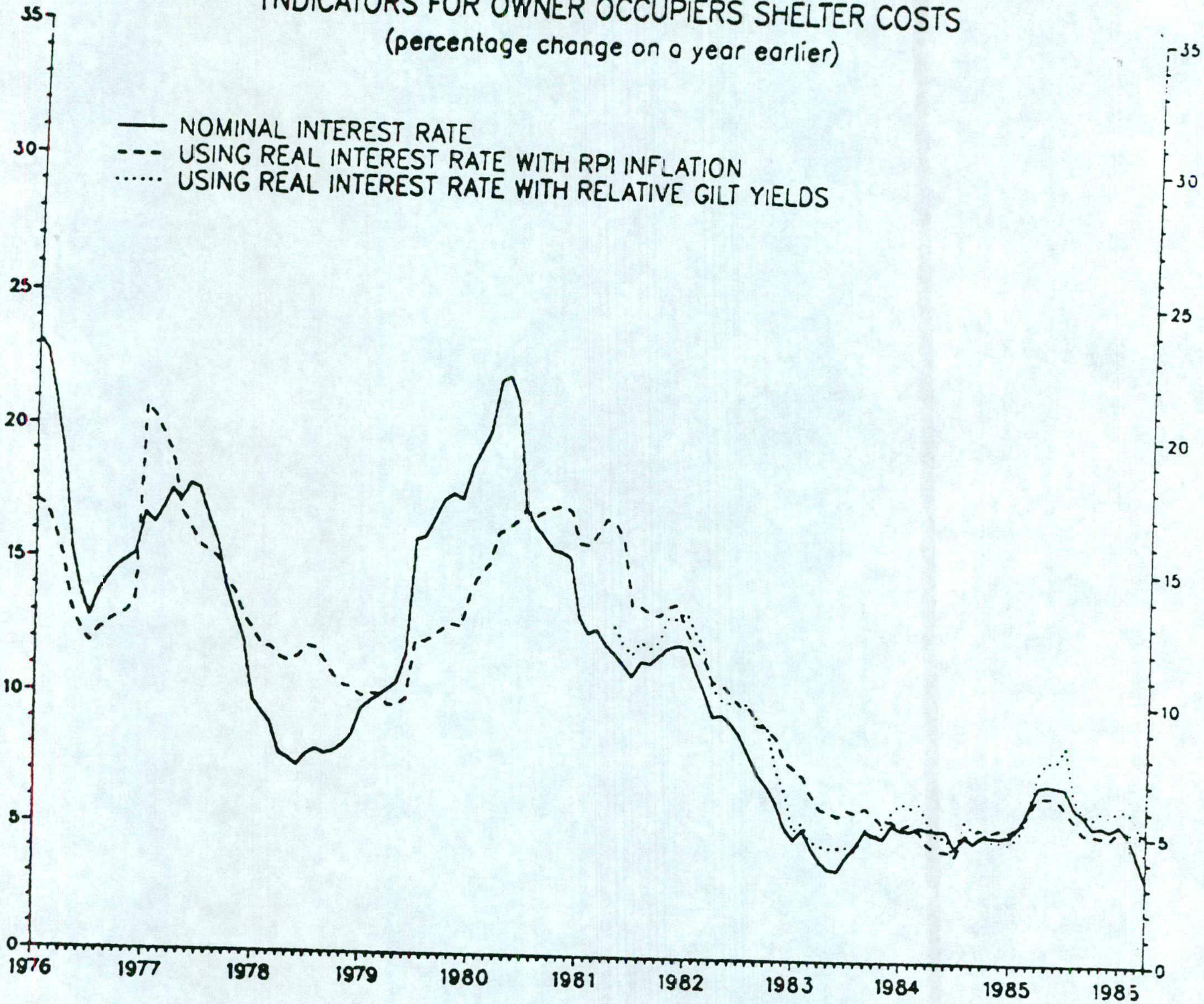


Treasury working paper for 1986 RPIAC

CHART C

RPI WITH ALTERNATIVE CURRENT EXPENDITURE APPROACH PRICE INDICATORS FOR OWNER OCCUPIERS SHELTER COSTS

(percentage change on a year earlier)



CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

CH/EXCHEQUER
REC. 14 APR 1989
ACTION MR HIBBERD 14/4
COPIES TO SIR P MIDDLETON, SIR T BURNS, MR SCHOLAR, MR ODLING-SMEE, MR PERETZ, MR GRICE, MR RITCHIE, MR O'BRIEN

My ref:
Your ref:

BF 20/4

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

13 April 1989

[for official advice]

Dear Nigel

In my letter of 17 March I said I would write further about the revisions to the house price estimates used in calculating the RPI, after the discussions which had been arranged between officials in our Departments and the Department of Employment.

As the RPI is designed to reflect changes in the price of a fixed basket of goods, the relevant measure of house prices is my Department's "mix adjusted index". This monitors changes in a standard collection of dwellings and is published quarterly. It is based on a 5 per cent sample of new mortgages provided by building societies.

The Department of Employment has in the past derived a monthly house price figure from projections, which my Department has produced, of the values of this index for the current and coming quarters. These projections assumed that the mix adjusted index would tend to move broadly in line with the simple average house prices reported monthly by major building societies. Any such projections can sometimes be shown to have been inaccurate when more information becomes available. This happened in the latter part of last year, when there was a fall in the proportion of sales which were in higher priced regions or involved higher priced dwelling types. As a result the average price of the dwellings which were being sold increased much more slowly than the underlying price of a constant mix of dwellings. This in turn gave rise to the revisions which contributed to the unexpected increase in the RPI.

When this problem was recognised my Department improved the method by taking account of a monthly mix adjusted index of house prices produced by the Halifax Building Society. This produced an appreciable improvement in the quality of the projections.

My officials also considered whether further improvements might be possible and discussed their ideas with officials from the Treasury and Department of Employment at the meeting in the middle of last month. As a result my Department is now using the data we receive from building societies to make estimates for individual months. However, at the time an estimate is required for use in the RPI we do not have all the data from building societies for that month. For this reason the Halifax Building Society's index is used to extrapolate from the latest available monthly estimate based on the information societies provide to the Department.

No method can ensure that estimates produced on the basis of incomplete date, as is made necessary by the RPI timetable, will not require subsequent revision. However we can confidently expect that the improvements described above should avoid revisions of a scale which will have an appreciable effect on the RPI.

I am copying this letter to Norman Fowler.

Yours ever

NICHOLAS RIDLEY

Nicholas

JSH/ch-rpi-19 **CONFIDENTIAL**

FROM: J S HIBBERD (EA1)
DATE: 19 APRIL 1989
EXT : 4590

CHANCELLOR OF THE EXCHEQUER

cc : Sir Peter Middleton
Sir Terence Burns
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Grice
Mr Ritchie
Mr O'Brien

Ch/ Content with brief reply to Mr Ridley?

OK

DEPARTMENT OF ENVIRONMENT HOUSE PRICE DATA AND THE RPI

You wrote to Nicholas Ridley on 2 March (copy attached) expressing concern over the Department of Environment's house price index and its implications for the RPI. Treasury officials had also taken this up with DoE and Department of Employment statisticians.

2. Nicholas Ridley's letter of 13 April (copy also attached) summarises the outcome of the various official discussions. It is a fair and reasonable account and we believe his officials have done about as much as we could reasonably expect at this stage, although we will keep the situation under review. The new DoE house price series should prove a marked improvement on the old series for RPI purposes. We hope this will avoid the unanticipated and occasionally large increases in the RPI that resulted from previous inadequacies in the DoE's house price index.

3. You may wish to write briefly to Mr Ridley along the attached lines.

JH

J S HIBBERD

DRAFT

pls type as final

FROM: CHANCELLOR OF EXCHEQUER

TO : NICHOLAS RIDLEY, MP

DEPARTMENT OF ENVIRONMENT HOUSE PRICE DATA

Thank you for your letter of 13 April. I am grateful for your efforts and your Department's progress in improving house price estimates used in the RPI. I am sure ~~convinced~~ it will prove to have been very worthwhile.

2. I am copying this letter to Norman Fowler.

N L

COPY LIST AS COVER MINUTE

ENVELOPES FOR RIDLEY, FOWLER

chex.jp/ds1/27

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

19 April 1989

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

cc Sir Peter Middleton
Sir Terence Burns
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Grice
Mr Hibberd
Mr Ritchie
Mr O'Brien

PMP

Dear Nick

DEPARTMENT OF ENVIRONMENT HOUSE PRICE DATA

Thank you for your letter of 13 April. I am grateful for your efforts and your Department's progress in improving house price estimates used in the RPI. I am sure it will provide to have been very worthwhile.

I am copying this letter to Norman Fowler.

Yours
Nigel

NIGEL LAWSON

SECRET AND PERSONAL

COPY NO. 2 OF 11 COPIES

CHIEF SECRETARY TO THE TREASURY

FROM: JILL RUTTER
DATE: 22 April 1988

MR McINTYRE

cc:
Chancellor
Sir Peter Middleton
Mr Anson
Mr H Phillips
Miss Peirson
Mr Gieve
Mr Potter
Mr Call

HOUSING BENEFIT

The Chief Secretary said that in advance of next week's Opposition Supply Day on Housing Benefit the Prime Minister had asked for some information on the scale and source of losses and possible ways of alleviating those losses. You provided a table (copy attached) which DHSS had prepared in the Autumn.

2 In discussion it was pointed out that people on income support could only be losers because of the 20 per cent minimum rates contribution. At above income support levels people would be affected by the increase in the tapers and also by the capital rule.

3 After some discussion three possible options were identified as conceivable mechanisms for offering further help:

(a) raising the floor for the taper to a level above income support. This had severe defects since it would destroy the whole symmetry of the income related benefits which was a major feature of the new Social Security system. This option was discarded.

'losers' – [illegible]

(b) reduce the taper

(c) provide some sort of cash protection or cap losses. This issue was however inextricably linked with the capital rule and could prove extremely complicated.

4 It was pointed out that the Government had decided to reduce the taper from the introduction of the Community Charge in 1989-90 in Scotland and 1990-91 in England and Wales. In logic there was a case for reducing the rates taper to the same level in the years before Community Charge introduction.

5 The Chief Secretary asked you to discuss with DHSS officials the presentation of the facts and figures on HB losers. He asked you to investigate further the two options identified above.

6 The Chief Secretary and I both subsequently spoke to Paul Gray at No.10. Mr Gray has asked DHSS to prepare a factual paper for the Prime Minister's Box tomorrow night. You will obviously want to be closely involved. This issue will be raised at Chequers on Sunday and the Chief Secretary would therefore be grateful if you could provide him with a brief on the options for his Friday Box.

Jill Rutter

JILL RUTTER
Private Secretary

TABLE 5A: PEOPLE NOT ON INCOME SUPPORT: CHANGES IN DISPOSABLE INCOME AFTER MEETING HOUSING COSTS: BY CLIENT GROUP

Cash position at point of change (Thousands)

CLIENT GROUP	INCREASES £5+	£4-5	£3-4	£2-3	£1-2	<£1	TOTAL INCREASED	NO CHANGE	TOTAL DECREASED	DECREASES <£1	£1-2	£2-3	£3-4	£4-5	£5+
PENSIONERS AGE 80+	10	30	50	60	60	30	230	20	70	10	30	10	*	*	20
PENSIONERS AGE 60-79	50	50	160	410	590	170	1440	220	500	100	150	70	30	30	130
SICK OR DISABLED	50	10	20	30	10	10	130	10	10	*	*	*	*	*	10
LONE PARENTS	70	10	10	10	*	*	100	20	90	10	20	10	20	20	20
COUPLES WITH CHILDREN - IN FULL-TIME WORK	170	20	20	40	20	10	290	20	70	10	10	10	*	10	30
- OTHERS	*	*	*	*	*	*	20	10	10	*	*	*	*	*	10
OTHERS - IN FULL-TIME WORK	*	*	*	*	*	*	10	10	110	10	30	20	10	*	30
- OTHERS	*	*	*	*	10	10	20	30	90	10	20	*	10	*	50
TOTAL	360	130	250	560	700	240	2240	340	950	160	270	130	70	50	270

010/4209

SECRET AND PERSONAL

COPY NO. 2 OF 9 COPIES

* Phone J Major

Discuss with CST.

FROM: JILL RUTTER
DATE: 22 April 1988

MR McINTYRE

cc:
Chancellor
Sir Peter Middleton
Mr Anson
Mr H Phillips
Mr Turnbull
Miss Peirson
Mr Call

Ch/ summary of likely Moore package behind (paper on losers now arrived, behind) [illegible] 22/4

[What [illegible] copied]

PS/CST → MG 22/4

HOUSING BENEFIT

Mr Clark in the Secretary of State for Social Services' Private Office rang me yesterday evening to put down a marker about the decision made on Tuesday on the rent taper. He pointed out that there had been no discussion of public expenditure consequences and he was ringing to say that the Secretary of State took the view that he could not be expected to meet this from his programme.

2 I said that we regarded the matter of finding this expenditure as unresolved at present. It would be a matter we would wish to pursue with DHSS in the Survey.

3 Could you please let me know immediately if you dissent from this line - which was clearly off my own bat - I can therefore be overruled quite easily. Mr Moore is reluctant to put any of this in writing.

Jill Rutter

JILL RUTTER
Private Secretary

CONFIDENTIAL

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

From the Secretary of State for Social Services

CHIEF SECRETARY
REC. 22 APR 1988
ACTION Mr McIntyre
COPIES TO Cx, Sir P Middleton, Mr Anson, Mr Phillips, Mr Harper, Miss Peirson, Mr Turnbull, Mr Ramsden, Mr Call.

DHSS on LOSSES

Paul Gray Esq
Private Secretary
10 Downing Street
LONDON
SW1A 5AA

22 April 1988

Dear Paul

HOUSING BENEFIT LOSSES : CAUSES AND EFFECTS

As requested, I attach a paper setting out the main factors contributing to housing benefit losses and roughly quantifying their significance. The paper also looks briefly at the some of the cases which have figured in the press. A copy of the paper also goes to Jill Rutter.

Yours sincerely

Rod Clark

ROD CLARK
Private Secretary

Enc

HOUSING BENEFIT LOSSES : CAUSES AND EFFECTS

1. Annex A attached summarises the housing benefit losses and the main changes in the structure of the scheme which creates such losses.

2. Essential points are:

- the significant HB losses for <u>income support</u> recipients result from the requirement to pay 20 per cent of rates (for some the average compensation in the income support rates will not fully compensate for the actual change); otherwise income support recipients' continue to be eligible for 100 per cent of rent with larger deductions for some than hitherto for example in relation to non-dependants in the same household. The most serious concern is therefore essentially with those above income support levels-c 3m.

- some HB losses are offset by gains in family credit. For example there are 330,000 couples with children in full time work who are HB losers but only 140,000 once benefit changes are taken into account.

- the largest reduction in HB expenditure, the commitment to pay at least 20 per cent of rates, saves £380 million but this is largely offset by £280 million additional income support expenditure to compensate for the average 20 per cent commitment

- the capital rule saves about £80 million with about 1/3 million households losing entitlement with average losses of £5 per week

- the other largest single savings measure is the rent taper, the increase from 60 per cent (the original technical annex assumption and itself higher than the previous taper) to 65 per cent saved £46 million. The entire effect of this savings measure fell on the 2m people getting HB help with rent who are not receiving income support.

- other important <u>structural</u> losers are single householders under 25 and lone parents

- claimants who previously benefited from generous local discretionary schemes may account for some of the very high losses. No account can be taken of local schemes in the attached tables of gainers and losers based on a national model.

3. Annex B summarises the cases which have made the 'headlines'. It shows that:

- they are by no means confined to HB losers

- some arise from aspects of the scheme Ministers would wish to preserve and defend such as the capital rule.

CN/1652p/2

ANNEX A

MAJOR INFLUENCES ON HOUSING BENEFIT GAINERS AND LOSERS

LOSERS

Attached is the structural HB gainer/loser table. Of the losers, some 1m will have lost all entitlement. The main causes are:

1. Capital Rule

£6,000 capital cut-off affects 2m households. Of these some gain (those with less than £3,000 capital). 330,000 people lose all entitlement to HB (all Pensioners).

A £10,000 capital cut-off would bring 150,000 back on again and they would gain, or average, 40p per week.

2. Steeper Rent Taper

The 65 per cent taper affects all cases receiving help with rent not on income support (2.2m). 60,000 lost all entitlement when compared with the White Paper assumption of 60 per cent. All cases above IS levels lost some benefit as a result. Moving back to a 60 per cent taper would mean 120,000 fewer losers (10,000 fewer losing £5 + per week), 150,000 more gainers (20,000 gaining £5 + per week) - average gain 30p per week.

3. Requirement to pay 20 per cent rates

Meant definite HB losses for all income support cases receiving help with rates (3.5m). But these are compensated in IS. Also means some losses for those above IS levels (although many of these will be paying some rates already).

4. Family Credit

New more generous Family Credit floated about 200,000 off Housing Benefit. This is reflected in the all income-related benefit gainer/loser tables (also attached) which need to be referred to for the full pattern.

5. Change in the Treatment of Lone Parents

Lone parents are substantial losers from the HB reforms. Whereas they were treated as couples in the old HB scheme they are now treated as single people (although there is a more generous lone parent premium). 680,000 losers. 20,000 no change. No gainers. Some of the losses will be offset by an increased entitlement to Family Credit (60,000 of the losers are in full time work so can benefit from this).

6. Young People

Most 18-25 year olds [about 80,000], especially students, lose from the HB reforms, because the applicable amount is set at the lowest level for this group and they were treated relatively generously under the old scheme. Students likely to be the largest group of losers in this age group.

7. Other changes

There are a number of other minor changes which affect entitlement (in most cases resulting in losses). These include:

(a) removal of scope for local discretionary schemes (except for war pensioners). This can have a dramatic effect in some cases and may account for some of the large losses

(b) non-dependent deduction changes

(c) changes to the treatment of amenity and service charges

(d) introduction of a hospital downrating provision

(e) abolition of special enhancements for needs allowances for the handicapped.

8. Abolition of Housing Benefit Supplement (HBS)

Housing Benefit Supplement was a considerable and much criticised complication to the old benefit system. Because of the non alignment of the HB and supplementary benefit means tests it was possible for someone with income above the supplementary benefit threshold to have net income below that level after housing costs and housing benefit were taken into account. HBS provided extra help to make up that amount. Under the new aligned schemes it is impossible to be worse off in that way and HBS is no longer necessary. But no transitional protection was provided for HBS. As a result for people whose supplementary benefit assessment (upon which the HBS entitlement was based) was much in excess of the relevant income support assessment (which is the starting point for the new HB rent and rates calculation) the loss of HBS help could exacerbate any losses arising from the HB changes alone. Some cases however will find that they now get more in HB than they used to get, even after allowing for HBS. This will vary on a case by case basis and the calculation is so complex that there is no identifiable pattern.

STRUCTURAL CHANGE IN HOUSING BENEFIT ALL CASES (thousands)

Does Not Reflect Offsetting Increases In Other Benefits

CLIENT GROUP	GAINS £5+	4-5	3-4	2-3	1-2	£1	TOTAL GAINER	NO CHANGE	TOTAL LOSERS	LOSSES £1	1-2	2-3	3-4	4-5	£5+
PENSIONERS 80+	*	*	10	40	30	30	110	120	490	170	230	60	10	*	20
PENSIONERS 60-79	20	20	20	50	170	200	480	660	2410	630	1090	320	130	50	190
SICK OR DISABLED	10	20	20	10	10	10	80	30	130	40	60	20	*	*	10
LONE PARENTS															
- FULL TIME WORK	*	*	*	*	*	*	*	*	60	*	10	10	*	10	30
- NOT FTW	*	*	*	*	*	*	*	10	610	70	420	90	10	10	20
- TOTAL	*	*	*	*	*	*	*	10	680	70	430	100	10	20	50
COUPLES WITH CHILDREN															
- FULL TIME WORK	*	*	*	*	*	10	10	*	330	20	60	60	30	40	120
NOT FTW	*	*	*	*	*	*	10	20	740	80	510	140	10	*	*
- TOTAL	10	*	*	*	*	10	30	30	1070	110	560	190	40	40	120
OTHERS															
- FULL TIME WORK	*	*	*	*	*	*	10	10	140	20	40	20	20	*	30
NOT FTW	*	*	*	*	*	*	10	90	780	180	370	110	20	10	80
TOTAL	50	40	60	110	220	240	720	960	5690	1220	2780	820	250	130	500

ALL INCOME-RELATED BENEFITS: CHANGES IN DISPOSABLE INCOME AFTER MEETING HOUSING COSTS: BY FAMILY STATUS

Effect of structural reform (Thousands)

FAMILY STATUS	INCREASES £5+	£4-5	£3-4	£2-3	£1-2	<£1	TOTAL INCREASED	NO CHANGE	TOTAL DECREASED	DECREASES <£1	£1-2	£2-3	£3-4	£4-5	£5+
PENSIONERS															
- SINGLES	70	30	60	150	350	200	860	870	1240	250	380	200	190	50	180
- COUPLES	20	10	20	30	110	80	280	310	850	210	200	140	100	50	140
NON PENSIONERS WITH CHILDREN															
- LONE PARENTS	260	20	20	20	80	20	420	90	330	30	90	110	20	30	60
- COUPLES	200	30	170	60	200	70	730	60	240	50	50	40	20	10	60
NON PENSIONERS WITHOUT CHILDREN															
- SINGLE AGE 25+	90	200	20	30	30	40	410	130	540	90	230	50	40	20	110
- SINGLE AGE <25	10	*	*	10	*	420	450	210	170	*	20	10	10	*	120
- COUPLES	10	*	10	*	*	10	40	20	280	40	40	100	30	20	50
TOTAL	670	290	310	300	780	840	3190	1680	3650	670	1020	650	410	180	730

ANNEX B

PRESS STORIES ABOUT THE EFFECTS OF THE REFORMS

1. Some stories have highlighted cases where the reduction in benefit is in fact nothing to do with the reforms, or where a mistake has been made

- for example the two cases in today's Guardian, Mrs Turnbull of Lancashire and Ms Richards of Blaenau Ffestiniog. Mrs Turnbull's Supplementary Benefit was withdrawn in March because of the capital value of property but it should have been withdrawn 17 months earlier. Ms Richards' benefit was also withdrawn because of the capital value of property, but incorrectly, and it has now been reinstated. Mrs Hughes of Telford had her HB miscalculated by the Local Authority.

2. Other losses which have attracted attention have resulted from specific aspects of the new schemes rather than structural changes (and nothing to do with Housing Benefit)

- for example, Mrs Godden of Bristol who lost over £40 a week because of the new definition of full-time work.

3. The introduction of a capital cut-off for HB has inevitably generated stories of losers - a letter in one newspaper reported an anonymous 84 year old with £7,000 capital who now received no help with his £50 rent and had a weekly income of only £41.

4. Housing Benefit Supplement - which was removed without transitional protection - has also produced stories:

- for example, the Guardian found Miss Williams of Manchester who lost £5.10 a week and Mrs Thomas of Tufnell Park who appears to have lost £13.

14 APR 1988

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THE STANDARD
13 APR 1988

Don't they want us to save?

MY widowed mother, aged 94, who still keeps house for herself at Hastings, struggled all her life to bring up a family on the income of a chauffeur-gardener. Unknown to my father she once pawned her wedding ring to make ends meet.

Gradually they invested savings for old age. Now the changes in housing benefit mean that those investments put her narrowly over the £6000 capital income limit. As a result, her previously rebated rates of £268 a year are being increased to £651.

Surely the Government should have second thoughts about penalising thrift in this way?—**Patricia King (Mrs), Monkleigh Road, Morden, Surrey.**

● IN reply to your correspondent Mr Rimington, no old age pensioner need die of cold if he loses his housing benefit because he has £10,000 invested. The interest on this sum should be quite enough to pay for increased fuel bills.—**G.W. Headon, Birch Way, Wallingham.**

Hard times on the horizon

ON 14 April my old age pension will be increased from £39.50 to £41.15 when my supplementary pension of £5.40 is reduced by 35 pence. Under the new rule everyone has to pay a minimum 20 per cent of the rates, so my rates will double, and next quarter electricity and gas charges are raised.

Mrs Thatcher has said she wants everyone to stand on their own feet but I suspect that many of us, not only old age pensioners, will be on our knees because of these changes.—**Henry Rayner, Audley Road, Hendon.**

78

12 APR 1988

Daily Mirror

DYING WOMAN PAYS 'PRICE OF TORY CUTS'

A DYING woman and her seriously ill husband learned yesterday that they are among the first victims of the Tories' social security cutback.

The rent on their council bungalow is rocketing from £4.90 to THIRTY POUNDS a week because of cuts in housing benefit.

By ROGER TODD

The couple, Doreen Hughes, 57, and Harry, 59, are frantic about how to make their disability benefits meet the huge increase.

But local DHSS officials at Telford, Shrop-

Turn to page 2

FRANTIC: Doreen

From Page 1

shire, told them: "You should be able to live comfortably on your income."

Mr and Mrs Hughes are among millions who will be worse off from this week under changes which signal the end of the Welfare State.

Hundreds of them phoned the Mirror to tell of their plight.

And thousands queued outside DHSS offices around the country for information.

At London's biggest DHSS office at Archway,

SICK JOKE: Sign at London DHSS office

the sign had been altered to read "Department of Ill-health and Social Insecurity."

Many claimants echoed the words of Harry Hughes, who said: "I'm at my wits' end to know how we're supposed to survive."

His wife Doreen, who has had three heart valve operations, has been told she is a terminal case.

As both are registered disabled, they draw £132.10 a week in allowances. Their outgoings amount to £125.40.

But now they are faced with finding almost £25 more for their rent.

Ruined — Page 9.

MIRROR COMMENT

2

Soaking the poor

DESPAIR, desperation and destitution began yesterday for millions of decent men and women — and their children.

To make it worse, many didn't know the full extent of what was happening. Or why. Or who was responsible.

They said so in calls to the Daily Mirror. In anguished visits to overburdened DHHS offices. In inquiries to advice bureaux, charities and MPs.

Not since the means tests of the 1930s, which forced unemployed families to sell all but a few sticks of furniture before they could get any benefit, has a British Government taken away so much from those who have so little.

Not since then has there been so much confusion, heartbreak and real fear. Not without cause. The reduced social security benefits lock up the chronically sick and disabled tighter and deeper in a prison of poverty.

Survive

AND deserted wives and abandoned single parents. AND pensioners who have spent a lifetime saving for their old age and a proper funeral.

AND the unemployed. AND those trying to survive on subsistence wages.

Those in need aren't to be helped — or heard. They are to be swept under the Persian carpet at No 10.

What will the Tories do next? Open privatised soup kitchens?

49

11 APR 1988

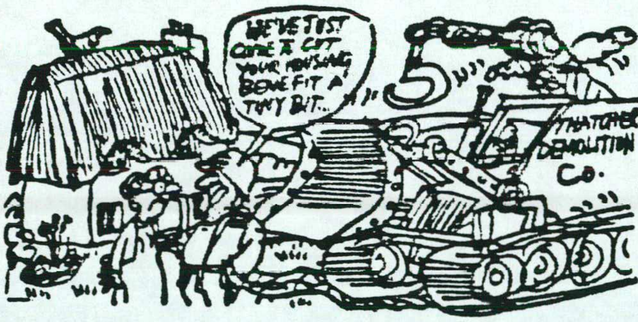
The **Guardian**

Just what happens when there is no more fat left to trim?

YOU CAN imagine with what trepidation I awaited the result of the reformation (deformation?) of the DHSS, but I was slightly reassured when I heard Mrs Thatcher's statement that the "overwhelming majority" would be "better off". Surely, I thought, she must mean it. Well I know now. I wonder how I became one of the underwhelming minority?

I am 73, disabled and diabetic. I do not drink, smoke or gamble; nor, since I am practically housebound, do I spend riotous evenings at bingo. This is not judgmental (people are entitled to enjoy themselves as they wish), it is just that my pleasures are less expensive — reading, crosswords, radio and television.

Before April 11 I managed quite well, as I graduated from a very good school of economics — the North-West mining and mill town where I still live. My father was a miner and my most vivid recollections are of the 1926 strike, when I, aged 11 and the eldest of four children, went to the Salvation Army for the family breakfast before going to school. I can even remember what it was — pink salmon sandwiches one day and porridge the next (and the Salvation Army have my eternal gratitude). After morning school I took a jug to the local slaughterhouse for my parents' dinner before going back to school for mine.



When I retired from social work in 1975 I had saved £2,000. It is now £1,600 and I had hoped to hang on to that. I don't want a pauper's funeral; nor do I want my relatives to bear the cost. The local DHSS and housing authority know every detail of my finances, yet, after April 11, my income will be reduced by £6.80, my housing benefit having been cut by this amount. Electricity is going up by 9 per cent, gas by 6 per cent. Even the home help fee has gone up to £2 — the greatest bargain in the world, but it still has to be found.

Where can I economise? Maybe I can cut the Guardian into small squares for use in the bathroom. I might even start a cottage industry by selling the surplus in packets to other victims. Would I qualify for an enterprise grant?

I realise I am more fortunate than many of my fellow-sufferers who, through no fault of their own, cannot even express themselves and may be bewildered and confused. This letter is for them as well. Has Mrs Thatcher no pity?

Lilian Williams.
4 Elizabethan Court,
Tyldesley,
Manchester.

WHY DO I feel "ripped off" by this government?

I pay rates on our home, which is also my student son's home. He is studying electronic engineering at a Scottish university for half the year, therefore he will be required to pay poll tax from this month. I, not my son, must pay this tax, as he is wholly dependent on his grant and therefore on me. (The government contribution is laughable.)

Where will the money come from? It will come from the bare maintenance grant that we are struggling to pay to keep him at university, which we can't increase. I will (legally) be forced to pay twice, while he goes deeper into debt.

If I refuse to be "ripped off", will I or my son be held responsible, and what retribution will descend?

Should we give up the unequal struggle, stop his grant and force him, unqualified, on to the dole queue? Would he and this country be better off if we did?

S. Myron.
West Park,
St. Helens,
Lancs.

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13 APR 1988

DAILY EXPRESS

Tories ready for showdown over benefit shake-up

By Political Editor ROBERT GIBSON and PETER HOOLEY

MPs are preparing for a bitter showdown today in a surprise debate over the new social security laws.

Labour are hell-bent on a battle with the Government and yesterday won the rare prize of an emergency debate on the subject.

Tory MPs are furious with Speaker Bernard Weatherill for granting the debate.

But Government Ministers are determined to come out fighting and turn the debate to their advantage.

They believe they can win the argument and convince people the changes will be an improvement by targeting benefits on those who really need them.

Preliminary skirmishes took place in the House of Commons yesterday when Labour's social services spokesman Robin Cook demanded a three-hour set piece debate.

Labour MPs stood backing Mr Cook, shouting across the dissident Tories on the Government benches to join them.

Minutes earlier there were furious scenes which dominated the first Prime Minister's question time since the Easter recess.

Mrs Thatcher repeatedly defended the changes, often having to shout to make herself heard above the uproar.

She spelled out how the Government wanted to target the most help to the most needy, those sick, disabled, and low income families with children.

Five times as many people would be gainers as losers, she told MPs.

Labour leader Neil Kinnock rose four times to challenge the Prime Minister. He urged Mrs Thatcher to allow more people to receive housing benefit by raising the cut-off level for savings from £6,000 to £10,000.

Mrs Thatcher retorted that more would be spent in real terms and more people would get housing benefit under the changes than in 1979 when the Tories took office.

Lectures

She told Mr Kinnock: "Inflation under the Labour government robbed people of their savings so we will take no lectures from you."

She said that if Labour had ever been in the position to spend £46 billion on social security—the cost of this year's bill—they would have been "shouting it from the rooftops."

Mr Kinnock cited the case of a [illegible]3-year-old disabled woman with a weekly income of £50 who, he claimed, would lose £6.80 a week in housing benefit and help with rates.

He repeatedly asked Mrs Thatcher how she would advise the woman to economise.

But Mrs Thatcher told him to refer individual cases to Social Services Secretary John Moore.

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18 APR 1988

DAILY EXPRESS

26

PENSIONERS' pressure groups claim that 2½million elderly people with savings of at least £6,000 will now have to pay at least 20 per cent of their rates.

Well, why shouldn't they? Supplementary benefit was supposed to help the poor. There must be millions of working men and women who would love to have £6,000 in the bank, but are never likely to so long as they are paying the bills for people far better off than themselves.

P. J. Oborne, Rainham

IF as Mrs Thatcher says, there will be one million losers in the new social security payments, why must it always be pensioners, the poor and sick?

My wife and I, old age pensioners, have just received a pension increase of £3.20, but we have to pay a rent and rates increase of £6.11 for our council house, giving us a loss of £3.56.

F W Heathcote, Plymouth

55

Today signals the end of the Welfare State . . . and the beginning of a nightmare for millions of people

11 APR 1988

Treading the grapes of wrath

CASE No.1

NAME: Michael Webster
STATUS: Unemployed.

Michael, 25, should have ended up with a few extra quid in his pocket. But the jobless Londoner reckons he will be WORSE off.

Under the old system he netted £24.35 a week — the basic payment for a young single man living at home with no extra commitments.

Now he could collect a new personal allowance of £33.40. But there's a snag. He says: "Because I've never held a proper job I am classified as having paid too little tax, so I'll only get £28."

Inflation will soon bite into the cash he receives. And Mike says: I'll be a lot worse off when the new poll tax comes in."

CASE No.2

NAME: Sue Smith.
STATUS: Single parent, daughter aged 10.

SUE is going to be at least £16 a week worse off. She is a part-time office worker for the NHS, taking home £58 a week.

Until now, Sue, who lives in Brent, London, has been entitled to £21.96 a week in supplementary benefit. Under the new system she will receive just £13.81 a week. She has to pay her water rates and part of her rates.

Her allowance will be frozen. Sue will not get an increase for TEN years. For she is a victim of the "transitional payment" scheme.

This is a controversial new arrangement which wipes out special allowances and gives claimants time to adjust to the new rates.

CASE No.3

NAMES: Bill and Muriel Windsor.
STATUS: Pensioners.

BILL and Muriel will have to sell their 23-year-old car. They can't afford to run it any longer.

Burma campaign veteran Bill had a thriving garden store in Broadstairs, Kent. He sold his home to finance it. Ted Heath, then Prime Minister, was a customer.

But raging inflation wiped Bill out, and now he and 65-year-old Muriel live in a rented bungalow at Cliftonville.

Though their pension is going up by £1.30, their income will drop more than £5 a week. They now have to pay towards their rates — and all their water rates. Bill says: "It is crazy."

CASE No.4

NAME: Leslie Barham.
STATUS: Jobless.

REDUNDANT Leslie's weekly supplementary benefit of £45.90 won't go up until 1995. That's how long he must wait for his next social security rise.

Leslie is separated from his wife and five children and lives in a room in Birkenhead. He lost his job as a community liaison officer two years ago. He suffers from diabetes — and his condition is getting more disabling.

His supplementary benefit of £33.40 has been topped up by £12.50 a week to help with laundry, heating and diet. All to be scrapped.

Leslie says: "I don't know how I'm supposed to live until 1995."

TOMORROW: Ruined — the family that's £50 a week worse off

Ch/

Mark Lennox-Boyd rang to say that, following Whips' meeting this afternoon he is more pessimistic than he was at Prayers about backbench unrest re £6 000 capital limit for HB.

Whips are taking discreet headcount and shd know results tomorrow afternoon. He will let us know asap.

mpw 28/4

CONFIDENTIAL

FROM: J P MCINTYRE
DATE: 22 April 1988
Home phone 272-7203
10 till 1 on Sat.

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Hawtin
Miss Peirson
Mr Turnbull
Mr Ramsden
Mr Call

MCI
7
CST

HOUSING BENEFIT

I saw DHSS officials this afternoon to find out more about the proposals Mr Moore is likely to put to the PM's meeting at Chequers on Sunday. A draft paper will go to Mr Moore tonight, and he will discuss it with his officials tomorrow (Saturday) before sending it to the PM. The proposals are therefore subject to any changes Mr Moore may want to make.

2. The proposals, with costings and the impact on the number of losers, are listed at Annex A. I should stress that the costings for some of the proposals are very rough, and Mr Moore's paper should contain better estimates. The Opposition motion for Wednesday's debate is at Annex B.

3. The proposals, as they stand, are:

No i. A cut in the rent taper from 65% to 60%.

ii. A cut in the rates taper from 20% to 15%.

?one/or

iii. An increase in the capital limit from £6,000 to £8,000.

No iv. Special help for single parents, by increasing their applicable amounts for HB purposes.

v. Discretion for local authorities to provide transitional help for big losers (perhaps over £5).

Subject to getting the local authorities' cooperation, all these measures would take effect in June/July.

4. Clearly, a political judgment will have to be made about the scale of the measures needed to defuse opposition to the reforms. And DHSS have emphasised to me that their Ministers will not want to be forced to make a further round of concessions in a few weeks time because the first round is judged inadequate. However, taken together, their list of proposals looks excessive.

5. The total bill would be very roughly £200 million in 1988-89 and 1989-90. This might fall to perhaps £100 million in 1990-91, if the transitional payments could be substantially reduced, and allowing for the fact that we have already decided to cut the rebate taper for the Community charge from 20 per cent to 15 per cent. Once the new planning total is established, all of the central government subsidy towards this expenditure will score as public expenditure.

6. All this is on top of the £46 million we have already lost as a result of the decision not to raise the rents taper next year from 65 per cent to 70 per cent (this saving was already in the DHSS baseline.)

7. I have made it clear to DHSS officials that we are quite unconvinced of the need for additional expenditure of this order. In particular, I passed on your strong doubts about further action on the rents taper. And I also questioned whether special help for single parents was really justified (though at a cost of £3 to £15 million, this is not a major element in the total bill).

8. If the key objective is to look after the big losers, the most effective combination is probably the discretionary scheme to give transitional help, plus an increase in the capital limit. These together might cost around £100 million; this would decline

over the years as changes in claimants' circumstances (increased earnings, death, etc) took them off benefit and reduced the transitional payments.

Transitional Help

9. DHSS are clear that it would be impossible to draw up regulations entitling people to transitional protection for HB in the same way as for Income Support and Family Credit. They therefore propose to give Local Authorities discretion (within guidelines) to spend up to a specified ceiling on dealing with claimants who can demonstrate they have suffered large losses in entitlement, perhaps over £5. Each Authority would be reimbursed as to 100 per cent of the benefit payments made under this special scheme, instead of the usual 97 per cent; DHSS say this would be essential to get the Authorities' cooperation in speedy implementation. The cash ceiling for each Authority would be fixed as a percentage of its overall HB allocation for the current year.

how defined? Opposition will say: "another social fund"

10. The scheme would deal only with people who have retained an entitlement to HB under the reforms. Those who have lost it as a result of the capital rule would not be covered.

11. One of the advantages of giving local authorities discretion would be flexibility. In particular, they would be able to deal with cases who have lost large amounts due to the abolition of local schemes. LAs were spending nearly £50 million on these. The resultant losers are not included in the updated Technical Annex analysis of gainers and losers.

Capital Limit

12. Raising the capital limit to £8,000 would cost roughly £35 million in a full year. It would not go as far as the £10,000 suggested by the Opposition motion and by some Conservative backbenchers. It would restore benefit entitlement to about 100,000 of the 150,000 or so who are thought to have lost it as a result of the £6,000 limit.

13. Raising the limit to £8,000 would, however, still leave us with around 50,000 heavy losers (ie over £5) who have larger

amounts of capital and are thus disentitled. Raising the limit to £10,000 would take care of many of these, but the cost would rise to £70 million.

Raising the Tapers

14. Neither of these are cost-effective in terms of eliminating large losers. A 5 per cent cut in the rents taper would reduce the losers of over £5 by only 10,000, and a cut in the rates taper by a similar number.

15. DHSS told us they thought that Local Authorities would be much readier to agree to the discretionary scheme if the government was at the same time taking steps to ease the general rules. This was an important part of their case for action on the tapers.

16. Their other argument is that reducing the tapers eases the poverty trap and will please Lord Young and Mr Ridley.

17. We have rejected both these points. The Local Authorities might have to be offered 100 per cent reimbursement to get their cooperation. But adding to their permanent caseload, by reducing the tapers, seems an odd way of persuading them. On the poverty trap, the fact is that a 5 per cent cut in the HB tapers would make very little difference to the MTRs. Much more drastic reductions would be needed for this purpose, and that is clearly off-limits.

Conclusions

18. The transitional scheme and an increase in the capital limit look the best combination for reducing the number of big losers (from 270,000 to 50,000 if the limit is raised to £8,000). But it would not eliminate them completely. A larger increase in the capital limit would be necessary to make further large reductions in the number of big losers. The taper reductions and the help for single parents would not help for this purpose.

19. Further work will be needed on the details of the transitional scheme. In particular, the Treasury would have to

agree on the total amount of money available. The basis for fixing the cash ceilings in each Local Authority and for reducing the amounts in later years will also have to be agreed. Whether we should allow Local Authorities to offset large losses in full also has to be decided; equity with small losers points to less than full compensation.

J P

J P MCINTYRE

ANNEX A

COSTS OF HOUSING BENEFIT PACKAGE

	88-89	89-90	90-91	REDUCTION IN LOSERS	HEAVY[1] LOSERS
Decisions already taken					
CC TAPER	-	15	130	-	-
RENTS TAPER 70 TO 65 IN 89-90	-	46	46	-	-
total	-	61	176		
New Proposals (assumes start Summer 1988)					
RENT TAPER 65-60	40	46	46	120	10
RATES TAPER 20-15	70	70	-	150	10
CAPITAL RULE	30	35	35	100	100
HB LONE PARENT PREMIUM £12	3	4	4	50	20
HARD CASES (IS)	2	2	2	-	-
TRANSITIONAL PROTECTION	50	30	20	120*	120*
ADMIN	10	6	4		
new proposals total	205	193	111	500	220
grand total	205	254	287	500	220

1 Over £5

* Includes losers who would be helped by taper cuts and lone parent premium.

ANNEX B

OPPOSITION MOTION: WEDNESDAY 27 APRIL

Neil Kinnock
Roy Hattersley
Robin Cook
Margaret Beckett
Harriet Harman
Clive Soley

That this House expresses its concern at the evidence of the hardship caused by the recent changes in Housing Benefit to many individuals, particularly pensioners with property which is for sale but has not been sold, modest savings of small occupational or disability pensions; recognises that Her Majesty's Government may not have fully appreciated this degree of hardship in framing the new regulations and calls upon Her Majesty's Government to raise the capital disregard so that no-one with less than £10,000 in capital assets loses Housing Benefit and to relax the taper by which Housing Benefit is reduced for claimants with any income above the poverty line.

35a/g.fim1.ei/other/281

UNCLASSIFIED

FROM: RUTH KOSMIN (FIM2)
DATE: 25 APRIL 1989
EXT: 4508

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Hibberd
Mr O'Donnell
Mr Grice

Thanks. 2. What happened to house prices in 1980? (The last time the RICS index showed a fall, acc. to chart B). L

HOUSE PRICES: RICS SURVEY

The results are now available for the quarter ending March 1989 from the housing market questionnaire undertaken by the Royal Institution of Chartered Surveyors. The attached chart includes the latest figures, and shows an overall picture very similar to the results from the four previous surveys.

2. A total of 155 agents contributed, and the following breakdown shows the percentage of agents reporting in each of the categories:-

		%	%	
i. very much higher (approx 8% or more)		3.0	(3.6)	
ii. much higher (approx. 5%)		10.8	(10.4)	
iii. slightly higher (approx. 2%)		15.9	(18.1)	
iv. the same	70.3	48.8	(51.1)	68.0
v. lower		21.5	(16.9)	

The results of the previous survey, for the 3 months ending in February 1989, are shown in brackets..

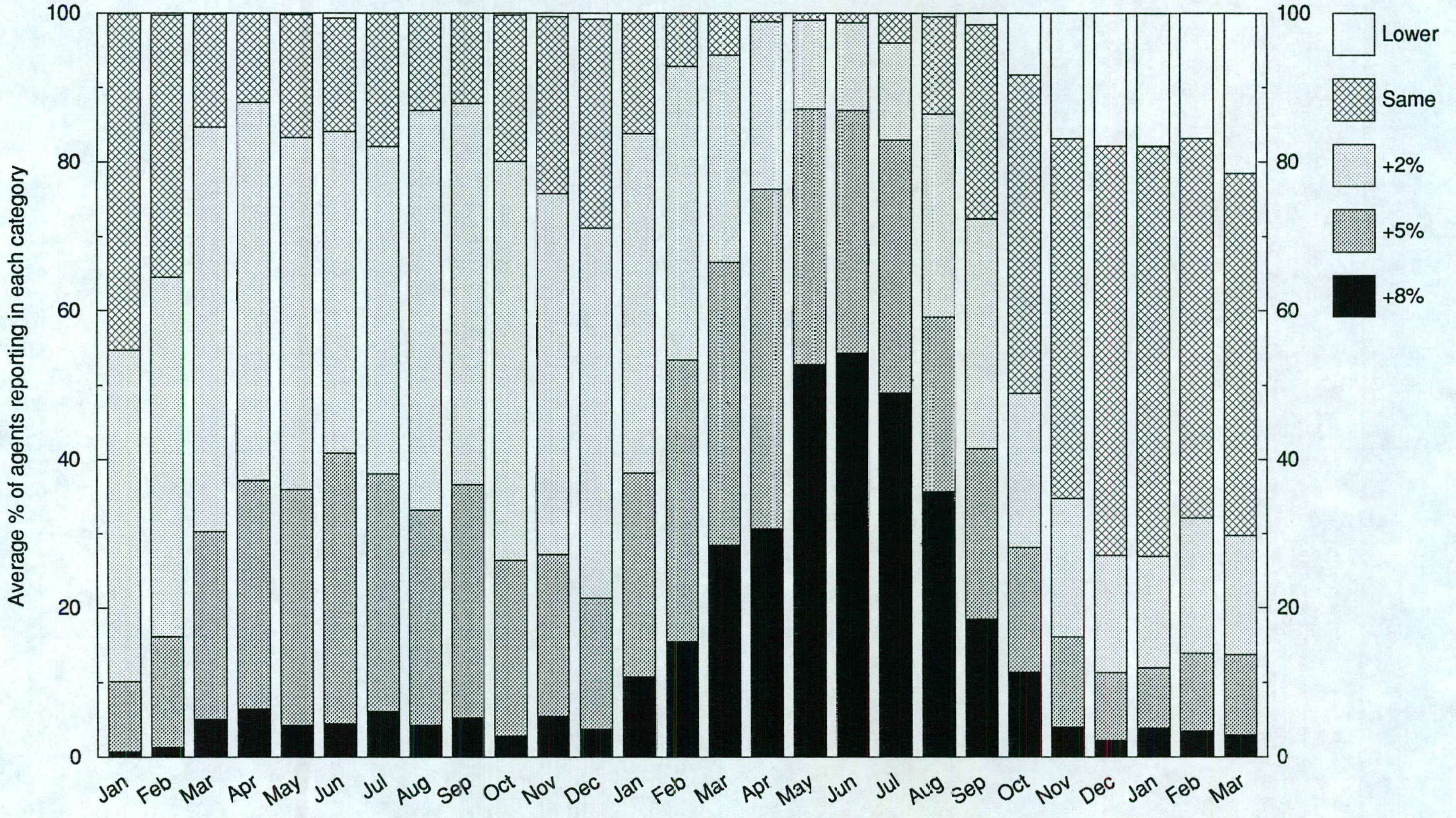
3. The South East region was the one highlighted this time on the rotating survey of the regions. There were 27 agents who contributed to this special survey, but the breakdown of responses shows a very different pattern from the nationwide figures. There were no reports of prices having increased over the previous three months, and a third reported lower prices. Two thirds of respondents indicated static prices. The evidence from the South East is that vendors are having to reduce their asking prices to obtain any chance of a sale.

4. I also attach the updated charts you requested on a regular basis which compare my computed RICS index of house prices with the Halifax index (Chart A) and the Department of the Environment approvals and completions indices (Charts B and C).

Ruth Kosmin

RUTH KOSMIN

Agents' Comparison With Prices Three Months Ago

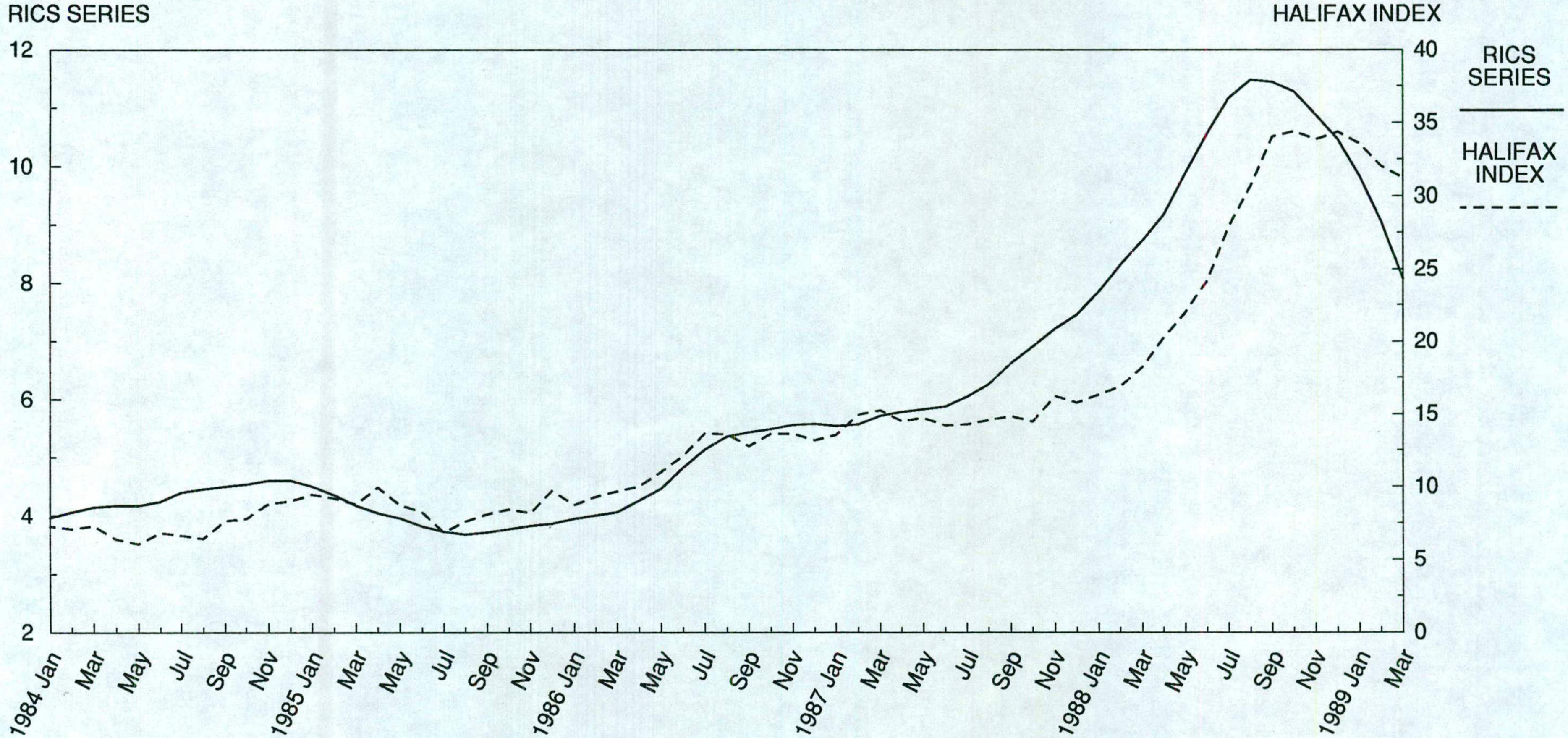


1987 - 1989

CHART A

RICS INDEX

(12 MONTH PERCENTAGE CHANGES)



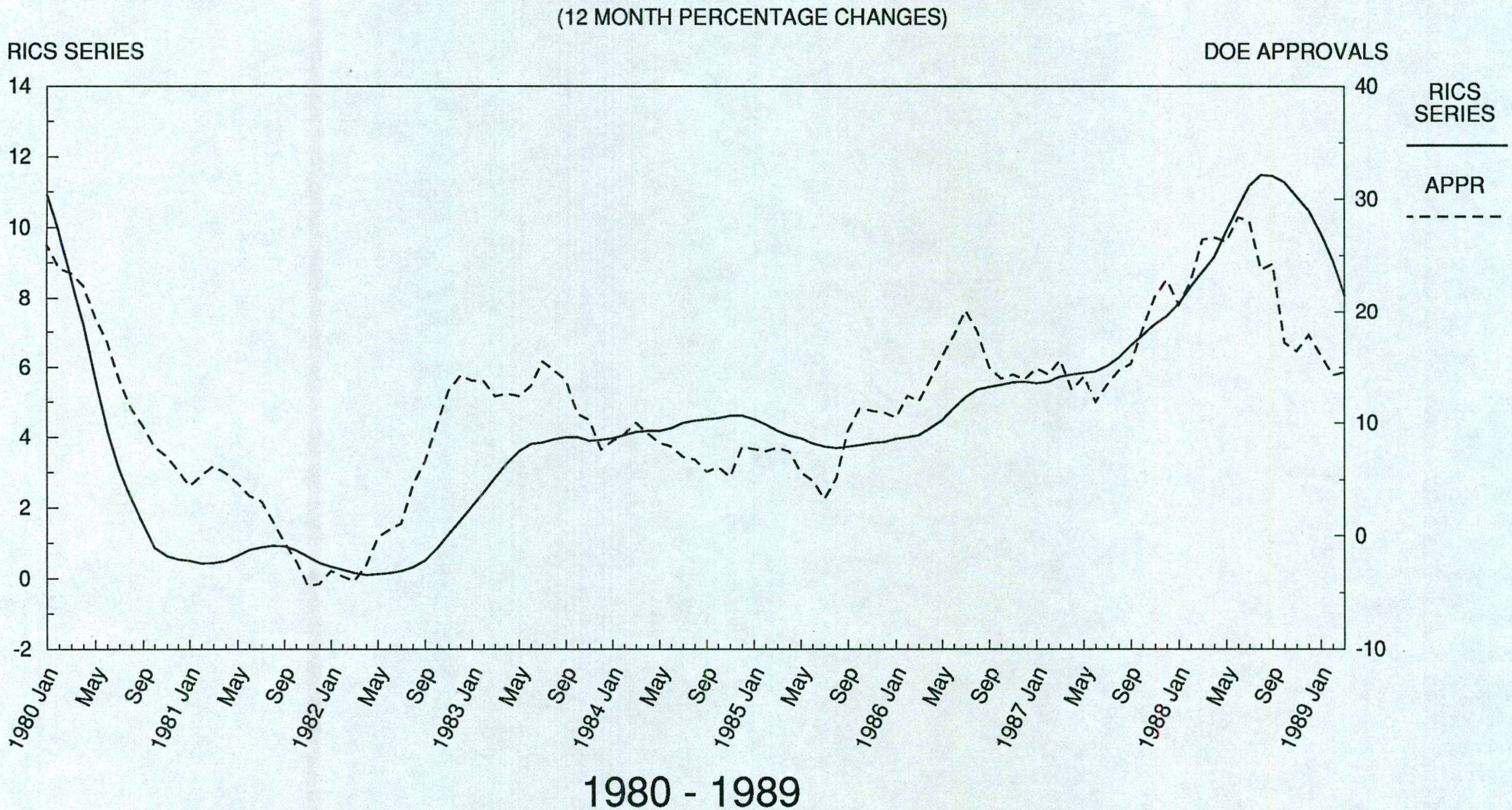
1984 -1989

RICS SERIES AS IN TABLE 1

(November 1978 = 100)

CHART B

RICS INDEX



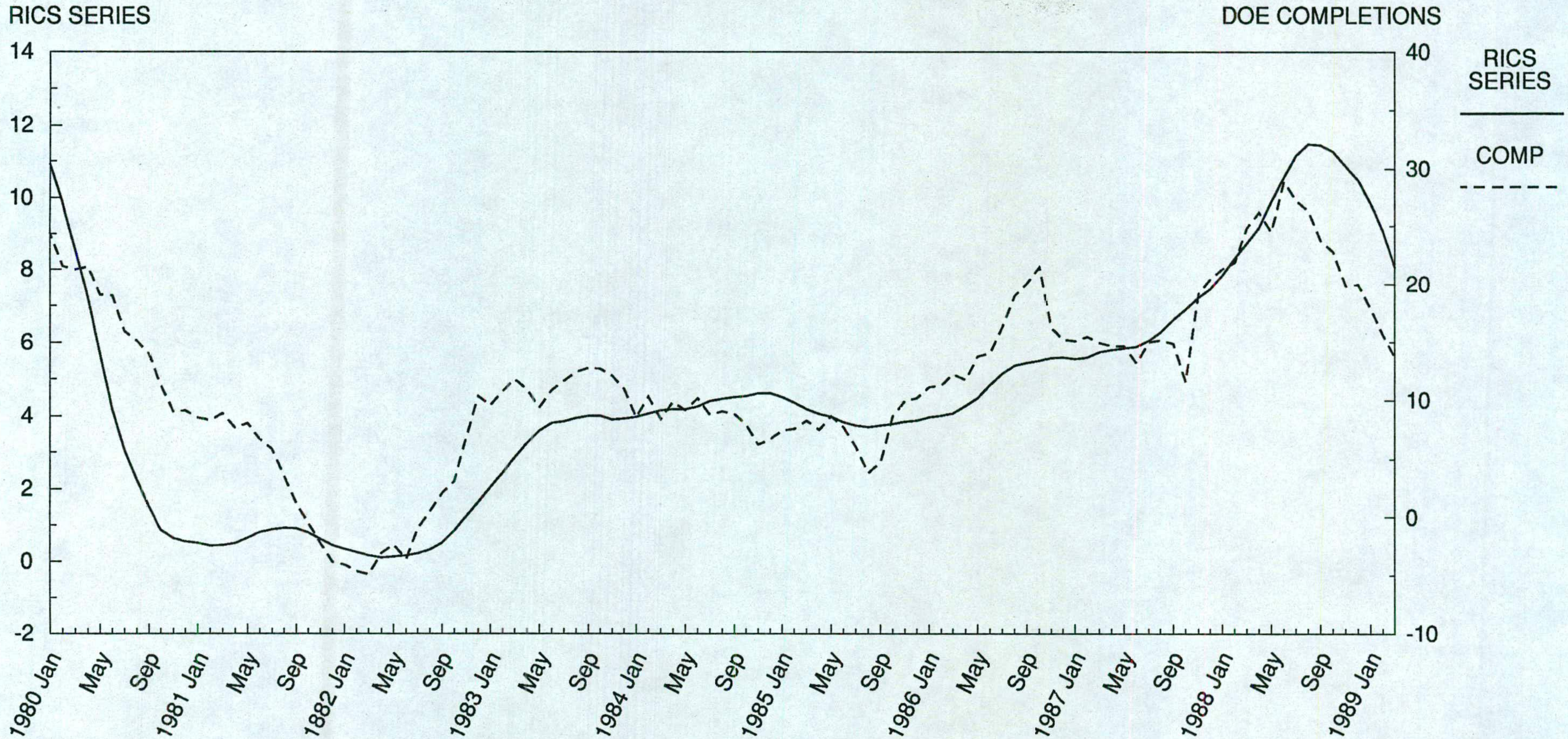
RICS SERIES AS IN TABLE 1

(November 1978 = 100)

CHART C

RICS INDEX

(12 MONTH PERCENTAGE CHANGES)



1980 - 1989

RICS SERIES AS IN TABLE 1

(November 1978 = 100)

26/4/88.

Chy just arrived

CONFIDENTIAL

Prime Minister

MJ

HOUSING BENEFIT

John Major and I have been considering how we might take forward our agreement on Sunday that we should provide protection mainly on a transitional basis for those losing from the housing benefit changes. The elements we have looked at (summarised in the Annex) are as follows:

* an increase in the capital limit for housing benefit only from £6,000 to £8,000. This will cost £30m. It will remove 100,000 losers (mostly over £5). 30

* a decrease in the rates taper from 20% to 15% (i.e. bringing forward the community charge change). This will cost £80m a year for two years. 3 million people will gain small amounts: there will be a marginal effect on losers. 80

* a decrease in the rent taper from 65% to 60%. This will cost £46m. Around 2 million people will gain and there will be 120,000 fewer losers (10,000 who now lose over £5). 46

* A transitional scheme to make good housing benefit losses in excess of £3 for pensioners, the disabled and families with children (including lone parents) except those arising from:

  - capital over £8,000
  - the requirement to pay 20% rates
  - rent and rates increase operating from the beginning of April or later (these not strictly losses but gains foregone).

To make the scheme manageable we would propose to operate on a 50p minimum payment i.e. no payment until the loss reaches £3.50 but then the whole 50p is met. Around 185,000 people (250,000 if we do not do the rent and rates taper) would be protected. The benefit cost would be of the order of £45m in 1988/89 (£55m without the rent and rates taper) and the administrative cost up to £20m, nearly half the benefit cost. Such a scheme could be run by my Department through a central unit (to avoid disrupting local offices) - the front runner for location at the moment would be Glasgow or East Kilbride. Transitional protection would be phased out as individuals' circumstances changed and benefits were uprated.

45

20

The capital limit and rent and rates taper will need to be changed by regulations and local authorities given a reasonable time to implement them. We would bring forward the (negative) regulations as soon as the consultation required by statute with local authorities had been completed, and they might be effective in June or July.

The transitional scheme would need to be run extra-statutorily at any rate at the start - there are no longer any powers in main legislation which would enable us to run such a scheme. It would be unusual to run a scheme on this scale for several years with no statutory backing and the Treasury advise that the normal conventions would require primary legislation in due course. But this would give rise to a resurgence of the discussion of the structural changes and hence would be best avoided.

The transitional arrangements will deal with the losses to the relevant groups which have occurred since 1st April. When the changes to the tapers and the capital limit are introduced in June or July the cash protection will then be adjusted to take this into account. This and the time it would inevitably take to set up a new organisation means that it would be June/July before it would be fully operative. This should not cause any problems for rent and rates rebates where local authorities could be asked to defer taking any action over people in difficulties with meeting their commitments, but earlier action would be necessary for some private tenants. So we would hope to get the nucleus of an organisation through which urgent cases could be chanelled set up very quickly.

Even if all the elements of the package are implemented, there will still be a number of people with significant losses. There will be 1/4 million people with capital over £8,000 who will have lost all entitlement to benefit (losing £5 a week on average). And many people qualifying for transitional protection will still face a sharp drop in disposable income because of increases in rent or liability to 20% of rates. These aspects will need careful explanation and handling.

I see the package as containing three elements, all in my view absolutely essential. First we protect the hard cases, which are worrying so many of our supporters, through the transitional scheme. Second as we reluctantly agreed at Chequers, we have to move on the capital rule - this gives a significant amount of help, but to a small group of people. Third we have to tackle the tapers, which are the cause of losses right across the spectrum. I know the Chief Secretary has doubts about this third element but without it our package helps only a few hundred thousand people. We would not meet the anxieties now being so widely expressed and housing benefit would continue to be a running sore. Because the transitional scheme can be run at a lower cost than we had originally envisaged, my proposal can be contained within the financial parameters of our discussion at Chequers.

The Chief Secretary believes the core package set out in the Annex would be the best means of meeting the political need for action on the capital limit while also helping those most severely affected by other aspects of the Housing Benefit reforms. He does not believe that additional expenditure of £126 million on reducing the rents and rates tapers would be a cost-effective means of meeting the government's objectives. This would produce an average gain of around 60p per week. This would not be well-targetted, since our main concerns have been the big losers from the capital cut-off and the local discretionary schemes.

However, the Chief Secretary would be prepared to accept a more generous transitional scheme in order to bring the total benefit cost up to around £100 million, which would be more effective in presentational terms. This could be done by lowering the threshold for the transitional scheme to £2.50.

The Chief Secretary is also concerned at the potential administration costs of the central unit which would be set up to run the transitional scheme; this will need further scrutiny. But he believes nevertheless that this would be a better mechanism for delivering the scheme than the Local Authorities.

JM

26 April 1988

ANNEX

Areas discussed at Chequers

Capital to £8,000		£30m
Transitional scheme		£100m
Rates taper to 15%		£80m (2 years only)
	Total	£210m (with inclusion of reduction of rent taper to 60% (£46m), total £256m)

DHSS preferred package

Capital to £8,000		£30m
Transitional scheme (£3 + losers - 185,000 people)		£45m
Rates taper		£80m (2 years only)
Rent taper		£46m
	Total	£201m

Treasury core package

Capital to £8,000		£30m
Transitional scheme (£3 + losers - 250,000 people)		£55m*
	Total	£85m

*No reduction through effect of lower rent and rates taper

Administration costs extra for all packages. Transitional scheme (at £45m level) run through local authorities might cost £20m. DHSS run scheme also costs around £20m (£5m for local authorities) but benefit costs more tightly controlled. Administration costs for larger (£55m) scheme around £5m more in both cases.

Draft minute to P.M. (one discussed with CST @10pm)

John Major and I have been considering how we might take forward our agreement on Sunday that we should provide protection mainly on a transitional basis for those losing from the housing benefit changes. The elements we have looked at (summarised in the Annex) are as follows:

* an increase in the capital limit for housing benefit only from £6,000 to £8,000. This will cost £30m. It will remove 100,000 losers (mostly over £5).

* a decrease in the rates taper from 20% to 15% (i.e. bringing forward the community charge change). This will cost £80m a year for two years. 3 million people will gain small amounts: there will be a marginal effect on losers.

* a decrease in the rent taper from 65% to 60%. This will cost £46m. Around 2 million people will gain and there will be 120,000 fewer losers (10,000 who now lose over £5).

* A transitional scheme to make good housing benefit losses in excess of £3 for pensioners, the disabled and families with children (including lone parents) except those arising from:

  - capital over £8,000
  - the requirement to pay 20% rates
  - rent and rates increase operating from the beginning of April or later (these not strictly losses but gains foregone).

  To make the scheme manageable we would propose to operate on a 50p minimum payment i.e. no payment until the loss reaches £3.50 but then the whole 50p is met. Around 185,000 people (250,000 if we do not do the rent and rates taper) would be protected. The benefit cost would be of the order of £45m in 1988/89 (£55m without the rent and rates taper) and the administrative cost up to £20m, nearly half the benefit cost.

Such a scheme could be run by my Department through a central unit (to avoid disrupting local offices) - the front runner for location at the moment would be Glasgow or East Kilbride. Transitional protection would be phased out as individuals' circumstances changed and benefits were circumstances changed and benefits were uprated.

The capital limit and rent and rates taper will need to be changed by regulations and local authorities given a reasonable time to implement them. We would bring forward the (negative) regulations as soon as the consultation required by statute with local authorities had been completed, and they might be effective in June or July.

The transitional scheme would need to be run extra-statutorily at any rate at the start - there are no longer any powers in main legislation which would enable us to run such a scheme. It would be unusual to run a scheme on this scale for several years with no statutory backing and the Treasury advise that the normal conventions would require primary legislation in due course. But this would give rise to a resurgence of the discussion of the structural changes and hence would be best avoided.

The transitional arrangements will deal with the losses to the relevant groups which have occurred since 1st April. When the changes to the tapers and the capital limit are introduced in June or July the cash protection will then be adjusted to take this into account. This and the time it would inevitably take to set up a new organisation means that it would be June/July before it would be fully operative. This should not cause any problems for rent and rates rebates where local authorities could be asked to defer taking any action over people in difficulties with meeting their commitments, but earlier action would be necessary for some private tenants. So we would hope to get the nucleus of an organisation through which urgent cases could be chanelled set up very quickly.

Even if all the elements of the package are implemented, there will still be a number of people with significant losses. There will be 1/4 million people with capital over £8,000 who will have lost all entitlement to benefit (losing £5 a week on average). And many people qualifying for transitional protection will still face a sharp drop in disposable income because of increases in rent or liability to 20% of rates. These aspects will need careful explanation and handling.

[I believe that the package taken as a whole would be sufficient to contain the political problems, but that we shall remain politically exposed if we do anything less.]

Areas discussed at Chequers

Capital to £8,000	£30m
Transitional scheme	£100m
Rates taper to 15%	£80m (2 years only)
[Rent taper to 60%	£46m]
Total	£256m [£210]

DHSS preferred package

Capital to £8,000	£30m
Transitional scheme (£3 + losers - 185,000 people)	£45m
Rates taper	£80m (2 years only)
Rent taper	£46m
Total	£201m

Treasury core package

Capital to £8,000	£30m
Transitional scheme (£3 + losers - 250,000 people)	£55m*
Total	£85m

*No reduction through effect of lower rent and rates taper

Administration costs extra for all packages. Transitional scheme run through local authorities might cost £20m. DHSS run scheme also costs up to £20m (£5m for local authorities) but benefit costs more tightly controlled.

pmg

FROM: J P MCINTYRE
DATE: 26 April 1988

CHIEF SECRETARY

cc Chancellor
Mr Phillips
Mr Ramsden
Mr Portes

HOUSING BENEFIT

You asked three questions in advance of this evening's further meeting at No.10. The answers are below.

2. You should also know that DHSS officials have given me the package of proposals to deal with hard cases arising from the change to Income Support. They will cost £3-4 million this year, falling to nearer £2 million later. This is small beer in relation to the HB changes. But it includes a proposal to allow the value of unoccupied property to be disregarded for up to six months (and longer, if there are real difficulties in selling). This will deal with the Williams and similar cases which have been raised. Taken together, Mr Moore should be able to make something of these concessions and avoid the need for going further on HB.

i **Does withdrawal of HB begin at a lower level of income under the new system than under the old?**

3. The answer is yes. As you know, the old HB system had its own set of needs allowances for "standard" cases ie those people not on Supplementary Benefit and not therefore automatically entitled to benefit equal to 100 per cent of rent and rates. Under the reforms, the allowances are now the same as the personal allowances to which people are entitled under Income Support. This is part of the alignment. As Mr Portes' attached note shows, the new personal allowances are lower than the needs allowances of

the old HB scheme so that the income tapers begin to withdraw rent and rates assistance at lower levels of income.

4. Mr Moore may argue that this is saving considerable public expenditure and justifies softer income tapers.

5. It is true that if the personal allowances were raised throughout the new system (as they would have to be) to the levels of the old HB needs allowances, this would indeed be expensive. But that does not justify softer tapers under the new system. The old and the new HB systems need to be considered as a whole. The lower thresholds for withdrawal and the sharper tapers of the new system must be seen alongside:

   i. the 100 per cent compensation for rent increases which was not available under the old system to those with incomes above Supplementary Benefit, and

   ii. the fact that 100 per cent of rents are now eligible for assistance.

As Mr Portes' example shows, the latter may largely offset the impact of the lower personal allowances.

ii. Do Income Support claimants have transitional protection in terms of their Housing Benefit?

6. Those on Income Support are given 100 per cent of their rents and 80 per cent rate rebates. They are compensated in full for any rent increase. So there can be no loss arising on rents. What is new, compared with the old system, is the minimum 20 per cent rates contribution for which £1.30 (or £1 for singles under 25) has been added to Income Support (the forecast average for those on Income Support). In cases where the rates contribution is above the average, those on Income Support will be worse off.

iii. What are the costs of the proposed transitional scheme
at different minimum amounts of loss?

DHSS to give new estimates: not yet received.

Minimum Loss (£)	Cost (£m)	No. of Claimants
3.00	55	250,000
2.50	~~70~~ 66	335,000
2.00	85	420,000

7. I am afraid we have no figures for thresholds below £2. Given current pressures on DHSS (and the huge administrative problems that would arise from a scheme starting below £2) I have not pressed for them to be provided. The new estimates (not yet received) for £2 and £2.50 are the result of further modelling work today by DHSS.

8. As you know, if we have a rule that no-one is compensated for less than a 50p loss, a £3 threshold would mean an effective start to the transitional scheme at £3.50.

JPM

J P MCINTYRE

FROM: J D PORTES
Date: 26 April 1988

CHIEF SECRETARY

HOUSING BENEFIT

You asked for a brief explanation of the different thresholds above which the tapers operate under the old and new Housing Benefit (HB) schemes.

2. Under the old scheme, there were two different varieties of HB. Certificated HB covered those on Supplementary Benefit (SB), who got all their rent and rates paid. For these people, there is little new in the new scheme, apart from the 20 per cent rates contribution. However, those not on SB (even if their income was at SB level) got 'Standard' HB. This was calculated by taking the difference between their income and the 'needs allowance', and applying the taper, as in the new scheme. The differences are

- the 'needs allowance' was <u>not</u> the same as the SB level, whereas in the new scheme the 'applicable amount' <u>is</u> the IS level.

- the amount of HB payable if the needs allowance was exactly equal to income was only 60 per cent of rent, whereas under the new scheme it is 100 per cent.

- it was possible for someone to have income below the needs allowance, because the needs allowance was above SB. If this occurred, a 'reverse taper' operated to <u>increase</u> benefit entitlement. This is no longer possible.

- it was possible for someone on HB to end up with less income than the SB level, because of the 60 per cent rule above. They could then claim Housing Benefit Supplement to make up the difference.

4. In general the needs allowances were substantially greater than the IS applicable amount. However this difference is largely compensated for by making all rent eligible for benefit instead of just 60 per cent.

5. It is hence difficult to attribute losses to any specific part of the new scheme, like the applicable amounts or the tapers; the old scheme was so horrendously complicated that the change must be viewed as a whole.

6. I attach a table showing needs allowances and applicable amounts, and also an example (provided by DHSS).

J D Portes

J D PORTES

	Needs allowance (old scheme)	Applicable amount (new scheme)
Single person	£48.90	£33.40
Lone Parent	£72.15	£33.40
Lone Parent premium	-	£8.60
Couple	£72.15	£51.45
Family Premium	-	£6.15
Child under 11	£14.75	£10.75
Child 11-15	£14.75	£16.10

These allowances are additive; e.g. take lone parent with one child under 11:

<u>Old scheme</u>

Lone parent	£72.15
Child under 11	£14.75

	£86.90

<u>New scheme</u>

Lone parent	£33.40
Lone parent premium	£8.60
Family Premium	£6.15
Child under 11	£10.75

	£58.90

[Both schemes also contain disregards - income which is ignored for HB purposes.]

Example

Lone parent, one child under 11, with income of £48, paying average rent of £17.10 and average rates of £7.20.

Old Scheme	New scheme
Income £48.00	Income £48.00
CB £7.25	CB £7.25
OPB £4.70	OPB £4.90
------	-----
Total £59.95	Total £60.15
Needs allowance (see above) £86.90	Applicable amount (see above) £58.90
Income is below needs allowance by £26.95	Income is above applicable amount by £1.25
60% rent and rates is £14.58	100% of rent + 80 per cent of rates is £22.86
Applying 25% reverse rent taper to £26.95 gives £6.74	Applying 65% rent taper to £1.25 gives £0.81
Applying 8% reverse rates taper to £26.95 gives £2.16	Applying 20% rates taper to £1.25 gives £0.25
Total HB is £14.58	Total HB is £22.86
+£6.74	-£0.81
+£2.16	-£0.25
-----	------
£23.48	£21.80

This example is oversimplified; takes no account of disregards (application of which depends on the source of income) nor of differences between gross and net income. However I include it because a) it demonstrates how the effect of the lower needs allowances under the new scheme are largely offset by making 100 per cent of rent eligible for benefit and b) the loss shown of £1.68 is about the average HB loss of £1.75 per week.

typg.u1/ln/fim2/ph/1.27.4

UNCLASSIFIED

Sarah
DIS thank -

FROM: RUTH KOSMIN (FIM2)
DATE: 27 APRIL 1989
EXTN: 4508

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Hibberd
Mr O'Donnell
Mr Grice

Ch/ This should answer your query about house prices in 1980.
Thanks: DIS

HOUSE PRICES: RICS SURVEY

Further to my minute of 25 April 1989, I understand that you requested Chart A to be extended further back to 1980 since you were interested in the movements of the Halifax house price index for the earlier period.

2. Unfortunately, the mix-adjusted monthly Halifax index used in Chart A is not available prior to January 1983. The most useful alternative source for a long run of mix-adjusted house price data is provided by the Nationwide-Anglia Building Society, but this is produced quarterly and not monthly.

3. This quarterly series has been published since the mid 1950's, and is well respected and used widely for the analysis of house price movements. However, the Nationwide-Anglia in conjunction with Mike Fleming and Joe Nellis (both leading housing experts) have just published a new index which they claim has greatly refined their earlier quarterly index. So far, they have released figures for this new series from 1983Q1 to 1989Q1. They are still working on the full back series, but the data will not be available for at least another two or three weeks.

4. Whilst working on the new series, they have not updated the earlier series which is available only up to 1988Q4 and not 1989Q1. However, to consider the period from 1980 the earlier series has had to be used and the attached Chart 1 shows the 12 month percentage changes of this quarterly index up to the end of 1988.

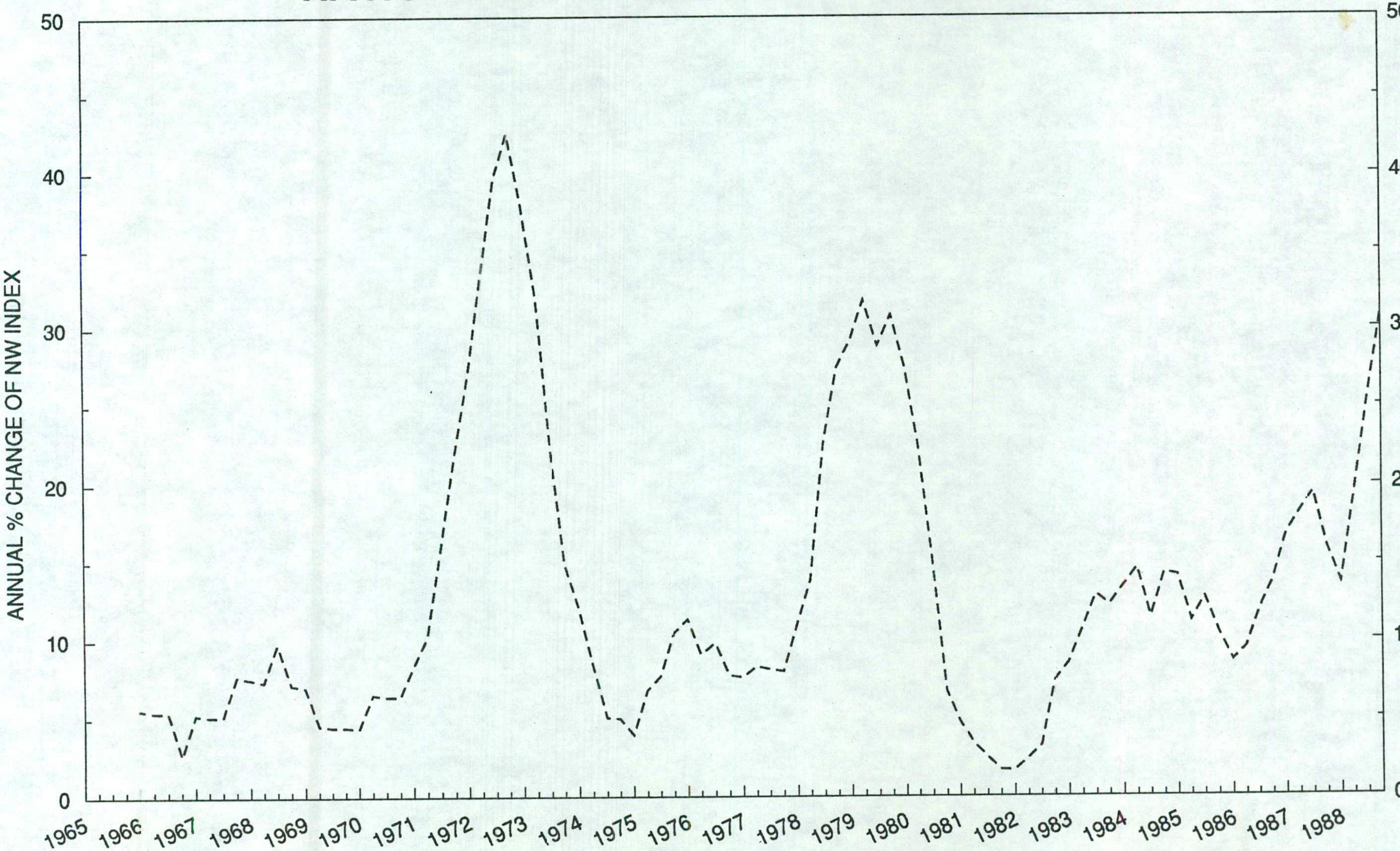
5. Chart 2 graphs the house price index from Chart 1 against the RICS 'constructed' index. The RICS index used in my minute of 25 April has been adjusted by simple averaging from a monthly to a quarterly basis for comparison with the Nationwide-Anglia data.

Ruth Kosmin

RUTH KOSMIN

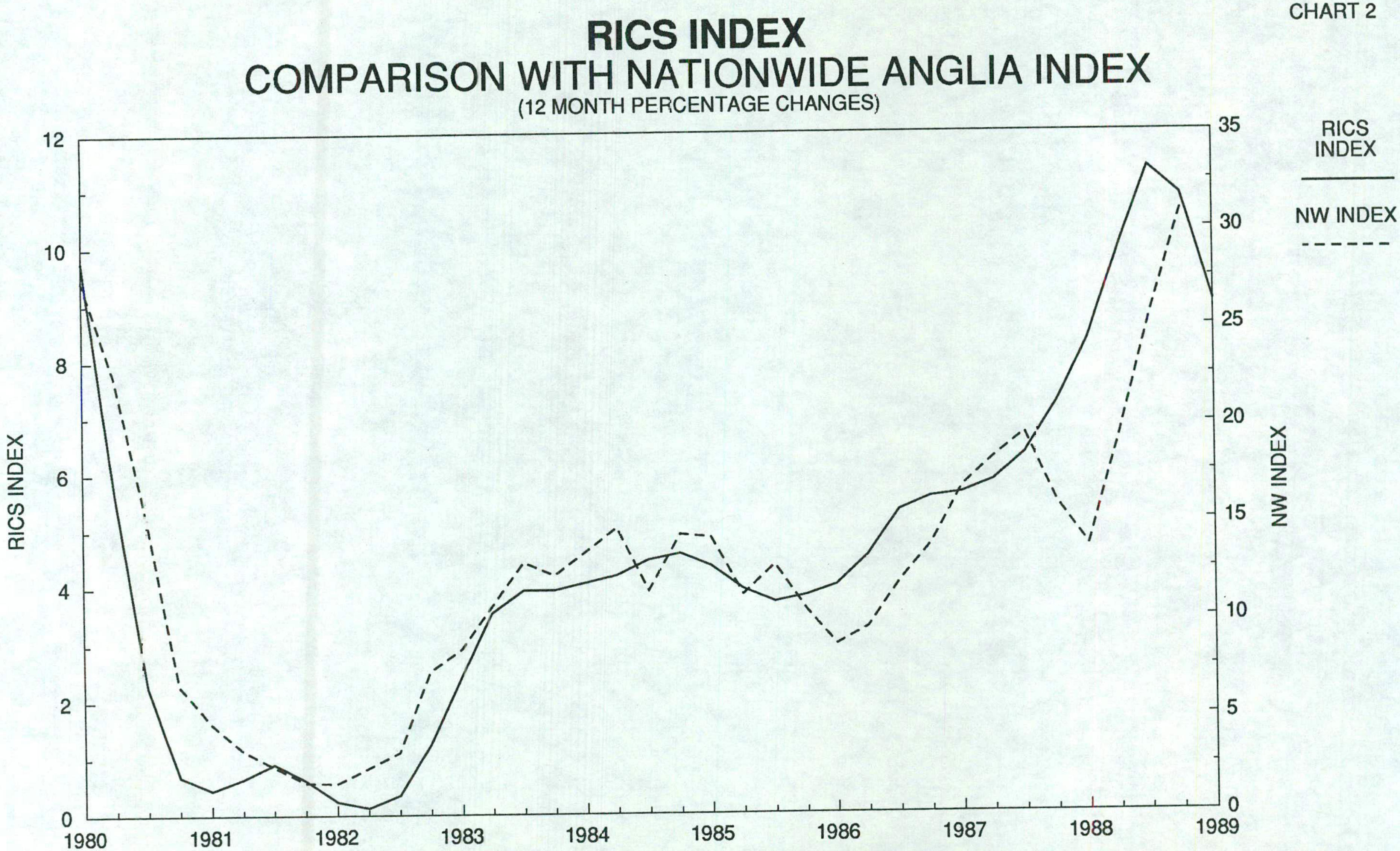
CHART 1

NATIONWIDE ANGLIA HOUSE PRICE INDEX



(1973 = 100)

CHART 2



RICS INDEX AS IN PREVIOUS CHART A (MINUTE OF 25 APRIL 1989), ADJUSTED FROM MONTHLY TO QUARTERLY DATA BY AVERAGING

NATIONWIDE ANGLIA INDEX (1973Q4 = 100)

Mike PCOP

FROM: SARAH COWX
DATE: 28 April 1989

MS KOSMIN (FIM2)

HOUSE PRICES: RICS SURVEY

The Chancellor was grateful for your minute of 27 April 1989.

Sarah Cowx

SARAH COWX