PREM 19/1533

PART 5

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Confidential Filing

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Housing

HOUSING

Pt 1: MAY 1979

Pt 5: JANUARY 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~2.1.85~~		~~7.5.85~~					
~~3/1/85~~		~~10.5.85~~					
~~21.1.85~~		~~13/5/85~~					
~~13/2/85~~		~~22.5.85~~					
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~~21/2/85~~		~~13.6.85~~					
~~22.2.85~~		~~27/6/85~~					
~~1.3.85~~		~~2.7.85~~					
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~~25.4.85~~							
~~29.4.85~~							

PREM 19/1533

PART 5 ends:-

RTA to FERB (A085/1766) 28.6.85

PART 6 begins:-

FERB to RTA 2.7.85

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

The Evidence - Inquiry into British Housing: Chaired by HRH The Duke of Edinburgh KG, KT. First published January 1985 on behalf of the Inquiry into British Housing by the National Federation of Housing Associations. ISBN 0 86297 080 6

Signed J. Gray Date 10/2/2014

PREM Records Team

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 1533 (one piece/item number)	Date and sign
Extract/Item details: Armstrong to Butler dated 28 June 1985	
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CC(W)

NAPM

PT 28/6

01 211 6402

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

27 June 1985

SURPLUS LAND AND EMPTY HOUSING

I have seen your letters of 5 and 17 June to the Financial Secretary and Chief Secretary respectively.

I agree that 6-monthly returns of empty houses owned by the NCB should be discontinued on the introduction of a once-yearly survey as part of the IFR.

As I confirmed in my letter of 22 May to John Moore, none of the other industries for which I am responsible owns a significant number of empty houses and I remain of the view that the amount of work involved in compiling returns of the detail you seek would be altogether disproportionate to any benefit.

Like you, I wish to see as much publicly-owned land as possible brought into use. But regard must be had to the practical difficulties which will arise in disposing of, eg, contaminated and polluted sites such as former gasworks and oil storage sites, as well as the complexities of a system which will cut across arrangements already being introduced for the early disposal of nationalised industry land. I have in mind the proposed 5-year rolling programme which the NCB proposes to agree with local authorities for land to be released to those authorities on which the latter can then claim 100% derelict land grant for their full restoration. Timing of any proposed sale is clearly critical.

In determining when to release land the NCB, for example, has to be clear whether it contains any minestone or coal obtainable by opencast, whether it could be of benefit to NCB (Enterprise) Ltd, which could well have priority over a private sale, and whether the land concerned is liable to subsidence from completed underground working.

Timing is also crucial in relation to the likely return. It would not be right for nationalised industries to be forced into selling land at unrealistically low prices to meet arbitrary sales targets which may directly or indirectly conflict with their prime financial targets. Industries' managements must be allowed to judge for themselves when it is best to sell a property, so as to be able to achieve a worthwhile price and thus make the maximum contribution to meeting their

I note that in the case of land owned by nationalised industries the appropriate Minister's agreement is needed before a direction requiring disposal can be issued. While I certainly welcome this as the proposal stands, I do wonder whether departmental involvement in the pros and cons of the sale of particular sites accords well with our overall approach to natioanlised industries' internal management.

Finally, while I can go along with your invitation to developers to apply to have land put on to the land registers, I would wish for an opportunity to consumt my nationalised industry Chairmen if you should conclude that further legislation on this matter is desirable.

Copies of this letter go to the Prime Minister, other Cabinet colleagues and Sir Robert Armstrong.

PETER WALKER

Housing Pt 5
Policy

JUN 26 '92

NBPM AT 27/6 cc:DAO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

DW88

Secretary of State for Trade and Industry

26 June 1985

John Moore Esq MP
Financial Secretary
HM Treasury
Parliament Street
London
SW1

D John.

SURPLUS LAND AND EMPTY HOUSING

I have seen a copy of Patrick Jenkin's letter to you of 5 June in which he seeks to require all nationalised industries, as part of the IFR, to provide detailed information on empty dwellings. I accept that those nationalised industries with significant stocks of such dwellings should be treated no more lightly than Departments. But I share the doubts you expressed in your letter of 13 May as to whether this is necessary for those nationalised industries who do not have significant stocks. This is the case with the three industries - the Post Office, British Shipbuilders, and British Steel - for which I am responsible and I think that to require them to provide the detailed information Patrick seeks would be an unnecessary burden. I believe that the proposals you set out in your letter of 13 May will provide sufficient continuing incentive for disposals.

2. I am copying this to the Prime Minister, Members of E(DL), Ministers in charge of Departments not represented at E(DL) and Sir Robert Armstrong.

Yours ever
Norman

NORMAN TEBBIT

HOUSING : Policy : Pt 5

JS

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Mark Addison Esq
10 Downing Street
London
SW1

24 June 1985

Dear Mr Addison

We spoke this morning about the announcement which the Secretary of State is making today on proposed land registers directions. I enclose a copy of the announcement together with a list of the 50 sites involved.

As I mentioned, one of the sites (261-281 Regents Park Road) is in the Prime Minister's Constituency. The land (0.5 hectares) is owned by the London Borough of Barnet and is within a conservation area. It has been held for a community hall for a considerable period and is currently occupied by a limited range of temporary uses. There is strong potential for residential or commercial use and the land is zoned for this in the Initial Development Plan. The site is at present under review by the local authority with no immediate prospect of disposal.

Yours sincerely

Paul Heron

P J HERON
Private Secretary

Prime Minister. (2)

You will wish to be aware of this announcement, and the fact that one of the sites identified is in your constituency.

Mark Addison

25/6

ZBA 19

RATHGAR CLOSE
RECTORY CLOSE
LEGE TERRA
LLIS AVENUE
St Mary's Parish Hall
Park Cottages
Posts
Works
Christ's College
First House
Park House
1 to 3
84 4m
82 3m
81 7m
78 6m
74 4m
Flora Cottage
Gothic Cottage
1·34a
(0·54ha)
Parish Centre
Priest's House
St Philip the Apostle Catholic Church
Hall
Fern Court
1-12
Laburnum Lodge
LANE
GRAVEL HILL
REGENTS PARK ROAD
Garage
Bibsworth Lodge
West Court
BIBSWORTH ROAD
El Sub Sta
Clifford Lodge
Queen's Head (PH)
Garage
Derby Lodge
EAST END ROAD
TC
LB

London Borough of Barnet

J.H FOSTER ARICS

Borough Estates Officer

Gateway House.

Regents Park Road.

Finchley London. N3 2L

Site referred to in the proposed London Borough of Barnet (Disposal of Land at Regents Park Road, Finchley) Direction 1985

SCALE 1:1250

PLAN No. 1629

DOE Department of the Environment

2 Marsham Street
London SW1P 3EB
Telephone 01-212 3434

Press Notice

305 25 June 1985

GOVERNMENT ANNOUNCES FURTHER STEPS TO DIRECT OWNERS TO DISPOSE OF PUBLICLY-OWNED LAND

Patrick Jenkin, Secretary of State for the Environment, today gave a number of owners of unused and underused publicly-owned land notice that he would issue directions requiring them to dispose of it unless they could give him good reason for not doing so.

He has given notice under Section 99 of the Local Government, Planning and Land Act 1980, to the owners of 50 sites included in the land registers giving them the opportunity to make representations as to why he should not issue directions for the land's disposal.

Announcing the issue of the notices in a written answer to a Parliamentary Question from David Amess MP (Basildon), Neil Macfarlane, Parliamentary Under Secretary at the Department of the Environment, said:

"The Government is determined that unused and underused publicly-owned land should be brought into full use as soon as possible.

"My rt hon Friend has therefore today issued notices under section 99 of the Local Government, Planning and Land Act 1980 relating to 50 sites entered on the registers of unused and underused publicly owned land. The notices advise the landowners concerned that he proposes to direct them to dispose of these sites. The notices give the landowning bodies the opportunity to make representations to the Secretary of State as to why he should not direct them to dispose of their interest in the land or as to the contents of the proposed direction. A list of the 50 sites, which in total amount to 157 hectares of land, has been placed in the library of the House.

"Since the land registers were established, about 8000 hectares of land have been removed because they have been either sold or brought back into full use. We are very concerned that the momentum achieved so far should be maintained and these notices are a demonstration of our commitment.

"We will continue to look closely at sites on the register with a view to identifying further candidates for disposal. In addition, as my rt hon Friend has recently made clear, we are keen that companies, developers and other interested parties should draw to our attention any publicly owned land which they believe is underused and should be on the register and any registered land which they believe should be sold."

NOTES FOR EDITORS

The registers of unused and underused publicly owned land were set up under section 95 of the Local Government, Planning and Land Act 1980. Section 98 of the Act empowers the Secretary of State to direct the owner of a site or sites on the registers to take steps to dispose of their interest in the land. Before issuing such a direction, he is required by section 99 of the Act to give notice of his intention to do so, and to give the owner an opportunity to make representations as to why a direction should not be made or as to its proposed contents. If no representations are made within 42 days, the Secretary of State may give the direction as proposed. After considering any representations received from the owners in this period, the Secretary of State will reach a decision on whether or not to proceed with the making of directions on the sites, compelling the owning body to dispose of its interest in the land. If representations are made, the Secretary of State may not give the direction unless he is satisfied that the land can be disposed of without serious detriment to the functions of the owning body.

A list of the sites subject to the notices is attached.

Four directions have been issued to date; in Oldham, Sunderland, Darlington, and Nottingham (20 November 1984, Press Notice 523). Tender offers have been accepted on the first three. Discussions between the Department and the local authority on the fourth are still proceeding.

The Secretary of State announced in a speech to the Royal Town Planning Institute in Nottingham (7 June, Press Notice 275) that he has written to developers and others in the private sector asking them to identify unused or underused publicly owned land for possible registration. He has further invited them to draw to his attention registered sites which they feel should be sold.

Press Enquiries: 01 212 4685/2/3/90, 5113
(out of hours: 01 212 7132)
Public Enquiries: 01 212 3434
(ask for Public Enquiries Unit)

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LAND REGISTER SITES SUBJECT TO NOTICES UNDER SECTION 99 OF THE LOCAL GOVERNMENT PLANNING AND LAND ACT 1980

25 JUNE 1985

Land Register District	Land Register Reference Number	Site Address	Size Hectares	Owner
Crawley	CBC3	Crawley Avenue, Crawley	1.5	Crawley BC
Sevenoaks	KCC2	College Rd, Hextable	2.5	Kent CC
Wansdyke	DC/4	St John's Rd, Timsbury	0.4	Wansdyke DC
East Devon	DC/8	Gribblemead, Colyton	0.5	East Devon DC
Wimborne	DC/9	Potterne, Verwood	6.4	Wimborne DC
Forest of Dean	DC/2	Colchester Close, Westbury-on-Severn	1.2	Forest of Dean DC
Barking and Dagenham	ZBD/14	Raydons Rd, Dagenham	0.7	Barking and Dagenham LB
	ZBD/36	Connor Rd, Barking	0.5	Barking and Dagenham LB
Barnet	ZBA/08	Meadway/Potters Lane, Barnet	2.1	Barnet LB
	ZBA/19	261-281 Regents Park Rd	0.5	Barnet LB
Enfield	ZEN6	The Grange, Southgate Circus	0.5	Enfield LB
Richmond	ZRT3	Oak Avenue, Hampton	1.3	Richmond LB
Suffolk Coastal	DC4	Grange Farm, Felixstowe	12.1	Suffolk Coastal DC
Charnwood	CC/3	Land at rear of Burleigh College, Loughborough	4.2	Leicestershire CC
Walsall	DC/49	Hills Farm, Bloxwich	34.7	Walsall MBC
Leeds	L68	Colton Common, Colton	25.5	Leeds MBC
	L75	Austhorpe Drive, Leeds	0.6	Leeds MBC
	L115	Richmond Rd/Dawsons Corner, Pudsey	1.5	Leeds MBC
	L120	Holt Lane, Leeds	9.3	Leeds MBC
	L141	Stone Brig Lane, Rothwell	0.5	Leeds MBC
	L152	Denison St/Silver Lane, Yeadon	0.8	Leeds MBC
	L158	Old Farm Close, Leeds	1.5	Leeds MBC
	L160	Kirkfield Lane, Thorner	0.6	Leeds MBC

Land Register District	Land Register Reference Number	Site Address	Size Hectares	Owner
Leeds	L163	Freely Lane, Bramham	0.8	Leeds MBC
	L164	Lyndon Rd, Bramham	2.8	Leeds MBC
	L165	Willow Avenue, Clifford	0.5	Leeds MBC
	L166	Primrose Lane, Boston Spa	1.5	Leeds MBC
	L168	Shaw Barn, Wetherby	0.8	Leeds MBC
	L170	Whitley Croft, Otley	0.6	Leeds MBC
	L219	Keswick Lane, Bardsey	0.6	Leeds MBC
Bolton	LA/116	Stocks Park Drive, Horwich	4.4	Bolton MBC
Manchester	LA/15	Bethnall Drive, Fallowfield	1.2	Manchester City Council
	LA/28	Wythenshawe Rd	9.7	Manchester City Council
	LA/49	Boothroyden 'A' site, Blackley	6.7	Manchester City Council
	LA/51	Maple Rd West, Brooklands	0.8	Manchester City Council
	LA/57	South St/Parkhouse St/Wood St, Openshaw	1.5	Manchester City Council
	LA/60	Old Market St/Lion St/Lawson St/Dommett St, Blackley	1.0	Manchester City Council
	LA/117	Lime Bank St/Ashton Old Rd, Ancoats	0.7	Manchester City Council
	LA/180	Alfred St/Oak Bank, Hurpurhey	1.0	Manchester City Council
	LA/192	Old Market St/Grant St, Blackley	0.8	Manchester City Council
	LA/199	Boyle St/Smedley Lane, Cheetham	1.1	Manchester City Council
Tameside	LA/1	Richmond St, Ashton-under-Lyne	0.9	Tameside MBC
	LA/10	Newmarket Rd, Ashton-under-Lyne	2.0	Tameside MBC
	LA/13	St Annes Rd, Audenshaw	0.5	Tameside MBC
	LA/54	Hawthorne Rd, Denton	0.8	Tameside MBC
	GMC5	St Annes Rd/Guide Lane, Audenshaw	0.4	Greater Manchester MCC
Macclesfield	LA/3	Knowsley Rd, Macclesfield	0.5	Macclesfield DC
	LA/12	Beck Lane/Lanark Walk, Upton Priory	1.8	Macclesfield DC
	LA/19	Roewood Lane, Higher Hurdsfield	2.3	Macclesfield
Chester-le-Street	CST/1	Whitehill Park, Chester-le-Street	2.1	Chester-le-Street DC

25. VI. 1985

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CONFIDENTIAL

NBPM
AT 12/6

Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

Minister for Housing and Construction

10 June 1985

Dear John

Thank you very much for your letter of 6 June about the Rent (Agriculture) Act 1976.

Since Cabinet has decided not to proceed with degregulation of the private rented sector, this issue need not concern us any further now.

I am copying this letter to the recipients of yours.

Yours ever
Ian

IAN GOW

The Rt Hon Lord Belstead JP

CONFIDENTIAL

Housing; Policy

pth

CONFIDENTIAL

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the
Minister of State

Ian Gow Esq MP
Minister for Housing and Construction
Department of the Environment
2 Marsham Street
London
SW1 3EB

6 June 1985

Dear Ian,

Michael Jopling has asked me to thank you for your letter of 29 May about the Rent (Agriculture) Act 1976.

I do of course recognise that the opponents of deregulation may try to exploit a Government decision to retain the 1976 Act as a means of undermining the case for the repeal of the 1977 Act. I am nevertheless sure it is right to treat these two sectors separately and to maintain the existing arrangements relating to agricultural tied cottages. You have identified the major arguments for retention of the 1976 Act in your letter. Successive Acts of Parliament have treated the agricultural rented sector differently. The 1976 Act is widely accepted by all sides of the agricultural industry as having successfully overcome a difficult problem that existed before its enactment. Repeal of this legislation would do nothing to stimulate private lettings and could well make matters worse in the agricultural sector.

We will, of course, have to wait and see what arguments our opponents seek to deploy. I can assure you that we will give you every possible assistance in justifying the continuation of the 1976 Act, though as you say our tactics will need to be thought out carefully in the light of those adopted by those opposed to deregulation. My officials are already in discussion with yours on some of the minor consequential amendments to the 1976 Act that will be needed.

I am copying this letter to the Prime Minister, members of H Committee and to Sir Robert Armstrong.

Yours sincerely,

BELSTEAD

cc NO

NSPM
ST
5/6

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

5 June 1985

Dear John,

Thank you for your letter of 13 May about Departments' and NDPBs' surplus land and empty housing.

My Department will of course continue to devote considerable efforts to the disposal of its own unused land and that of NDPBs for which I am responsible. The main reason for my writing to you now, however, is to comment on the disposal, and monitoring of disposal, of empty dwellings owned by nationalised industries.

I share your view that industries with holdings of empty houses should not be treated any more lightly than Departments in response to the requirements set out by E(DL) in November 1984. That is why I am suggesting that, in order to set effective and reasonable targets for the disposal of empty dwellings, nationalised industries should be required, as part of the Investment and Financing Review, to provide the same information on categories of empty dwellings which has already been agreed by Treasury and my Department as a necessary component of the PESC Survey guidelines. I do not regard the information on receipts from empty houses currently collected as part of the IFR as an adequate basis for setting realistic targets.

Peter Walker has, as you pointed out, said that, in respect of the National Coal Board, he would not object if my Department's six-monthly arrangements for monitoring empty dwellings are replaced by a similar once-yearly survey under the IFR. He would not, however, welcome the extra workload result from two similar systems running side by side. I entirely agree with his view and my intention, once final agreement has been reached on a control system co-ordinated by Treasury to operate both through the IFR and the PESC round, is to write to colleagues releasing them from the burden or providing six-monthly returns.

I hope, therefore, that you can now agree to my proposals.

Housing : Policy Pt 5

I am copying this to the Prime Minister, members of E(DL), Ministers in charge of Departments not represented at E(DL) and Sir Robert Armstrong.

Yours ever
Patrick

PATRICK JENKIN

John Moore Esq MP

25 JUN 1985

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DEPARTMENT/SERIES PREM 19 PIECE/ITEM 1533 (one piece/item number)	Date and sign
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promote the sale of local authority housing to private developers. The Unit should be in place before the end of June.

Developers wishing to take over blocks of flats for estates for renewal faced a number of difficulties. First, the local authorities were often reluctant to sell and at present he had no powers of direction. He suggested that he might be given powers to direct that estates which had been empty for more than six months should be offered for sale, except where the estate was part of a current renovation plan. This would be modelled on the powers he already had to direct sales of unused land. Secondly, estates were often partially occcupied and it was difficult to sell them with sitting tenants. One possibility was to allow those tenants to transfer the cash value of any discount they had earned to the purchase of a private sector property. Efforts should continue to be made to promote the transfer of flats and estates to tenants' cooperatives or to private trusts which could provide better management than the local authorities.

The Minister for Housing and Construction said the RTB initiative had been very successful but had been confined largely to houses. Only about 20,000 flats had been sold. One of the difficulties was that the valuation put on flats was frequently in excess of the market value as measured by what people were actually prepared to pay. Valuers appeared to take no account of the fact that the first flats in a block to be sold would command a much lower price than later sales. At present, sales of local authority housing could be made below historic cost provided the price covered costs incurred since 31 March 1974. This date could be brought forward in order to provide more scope for selling very low value properties.

The Minister for Housing and Construction said he planned to launch a new initiative in September to promote RTB. For this to be successful action was needed on the problem of valuation and to ensure that service charges were not excessive and represented no more than a true cost of services rendered. It was for consideration whether there should be further improvement in the existing incentives for RTB such as the qualification period, the amount of discount earned, or an easing of the claw-back provisions.

Summing up the discussion on these issues, the Prime Minister said the emphasis should be on encouraging private sector developers to take over inner city estates for renovation and repair. The Secretary of State for the Environment should investigate powers to direct councils to put unoccupied property up for sale. In such a system preference might be given to purchasers who wanted to buy for their own occupation. A general provision to allow tenants to apply discounts earned to private sector purchases should not be pursued. This would be unfair to those who had saved for their deposits and it could encourage people to seek council accommodation solely to earn the discount. The possibility of a limited scheme in

areas of special housing stress could be considered. On RTB, it was agreed that no further improvement should be made for the incentives but ways of ensuring that the valuation of flats reflected what the market would actually pay and ensuring that service charges were not exccessive should be investigated. A provision to allow estate or blocks of flats to be transferred to co-ops or trusts where a majority of tenants voted in favour should be considered.

The meeting then considered a number of other questions raised by the report of MISC 113. The following points were agreed.

(i) The Government's aim should be, as far as possible, to adopt a market-related approach to housing policy.

(ii) The Government should not seek to promote home ownership by those on state income support.

(iii) The question of moving to economic rents could be examined further though it was noted that adoption of a target rate of return could add substantially to the costs of housing benefit.

(iv) Efforts should be made to secure more competition in management of local authority properties.

(v) Discussions about additional finance to enable renovation of the local authority housing stock to be given a higher priority should be conducted as part of the public expenditure round.

(vi) The issue of private finance for housing associations should be examined further. This should consider whether index-linked borrowing by housing associations from the private sector would be more expensive than borrowing from the Exchequer and whether this would add to the subsidies which Government already paid to housing associations.

(vii) It was noted that the Secretary of State for the Environment would be circulating proposals for dealing with the problem of homelessness and for reducing the costs incurred in providing bed and breakfast accommodation. The obligations imposed on local authorities under the 1977 Act should be re-examined.

(viii) The Secretary of State for the Environment should seek to ensure that structure plans, especially in the South East, took full account of market demand and provided adequately for employment growth and labour mobility. It was noted that there was strong opposition to this from Government supporters both in the House and in local authorities.

(ix) Ministers should present the Government's record on housing in as positive a way as possible before the publication of the Inquiry into British Housing.

This should seek to emphasise the importance of good management of the housing stock as an antidote to pleas for greater resources.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), John Graham (Scottish Office), Colin Williams (Welsh Office), Steve Godber (DHSS), Richard Broadbent (Chief Secretary's Office), Leigh Lewis (Office of the Minister without Portfolio), Neil Kingham (Office of the Minister for Housing and Construction), Christopher Evans (Office of the Minister for Social Services) and Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turnbull

ANDREW TURNBULL

John Ballard, Esq.,
Department of the Environment.

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PRIME MINISTER

Review of Housing Policy
(MISC 113(85)36; and the Secretary of State
for the Environment's minute of 23 May)

BACKGROUND

1. When Cabinet discussed public expenditure on 8 November 1984 (CC(84)26th Conclusions, Minute 5) a number of concerns were expressed about aspects of housing policy, for example about the number of dwellings (especially in the private sector) in need of repair or improvement and the arrangements for giving support, about the role of public sector housing, about the growth of homelessness and overcrowding, and about public expenditure on housing benefit and housing generally. You summed up that the discussion had revealed a number of unsatisfactory features in present housing policy, and that you would give thought to how a review of housing policy might best be arranged.

FLAG A.

2. Subsequently, you agreed that an inter-departmental Group of officials, under the chairmanship of Mr Gregson (Cabinet Office), should undertake a review of housing policy and report to Ministers by 31 March 1985. MISC 113(85)36 (sent under cover of Sir Robert Armstrong's minute of 28 March) is the result. The report is covered by a chairman's note which sets out in paragraph 21 (pages viii to xi) the issues which Ministers might consider. The Secretary of State for the Environment wrote to you on 23 May with his initial reactions to the report.

FLAG B.

FLAG C.

3. Since the review was put in hand there have been two significant developments in housing policy - the possible use of loans rather than grants to support home improvements (on which consultation is now going on), and a decision made (but not yet announced) to deregulate new lettings in the private rented sector. In addition MISC 111 and Cabinet have made decisions on housing benefit, notably to retain 100% housing

benefit support for rents (subject to fall-back capping powers to prevent abuse) though limiting support for rates to 80%.

MAIN ISSUES

4. As there is only about an hour available for your meeting, I suggest that you will want to take current developments as read, and to concentrate on the broad thrust of policy. There is no need to take detailed decisions but you will want to give the Housing ministers sufficient guidance on how to proceed. In particular:

(1) whether it is desirable to move as far as possible towards a market-related approach to housing policy;

(2) what further action should be taken to extend the right to buy; especially to those on state support;

(3) what further steps should be explored to transfer the ownership of local authority housing to the private sector;

(4) what priority to give to spending on what remains in the local authority sector; how far to move towards economic rents; and how to improve management;

(5) whether to seek to introduce more private finance into the voluntary sector;

(6) what to do about homelessness;

(7) how to further promote labour mobility.

The meeting should also take note of the position on legislation and consider presentation

A Market-Related Approach
(Report, para 21 ii)

5. The Report notes that there is no longer a national housing shortage, though there are regional and local shortfalls; GB housing conditions compare well with those in western Europe though there is increasing concern about disrepair and defects; owner occupation (60%) has widened choice and increased personal responsibility; the private rented sector (9%) is still tightly regulated and continues to decline; and the local authority sector (28%) has serious management problems and does not respond well to tenants needs. Public expenditure on housing (GB, capital and current, net of receipts, cash) has fallen from £5.5 billion in 1979-80 to a planned £3 billion in 1985-86, though housing benefit expenditure and the value of mortgage interest tax relief have both increased from under £1.5 billion in 1979-80 to an expected £4.5 billion in 1985-86.

6. Against this background, officials considered that the ideal strategy would be a market related approach with these main elements -

- keeping the amount of subsidy to a minimum (because it conceals real costs and distorts choices), concentrating it on people rather than housing, and directing it to those in greatest need

- reducing public sector involvement in the provision of dwellings, but providing sufficient resources for what it does have to do and promoting high standards of management and responsiveness to the needs of the consumer.

7. This broad approach is likely to commend itself to ministers. You may not want to promote much discussion. Reservations are certain to emerge in the discussion of the more detailed items that follow.

The Right to Buy and Home Ownership
(Report, para 21 iii-vi; Mr Jenkin's minute, paras 27 and 28)

8. The right to buy has been a great success. The question is

how much further can it reasonably be taken? The report proposes that DoE and Treasury officials should do further work on removing disincentives to the sale of flats (eg. the uncertainty of service charges, and liability for structural defects) and on the "cost floor" (which prevents mostly post-1974 dwellings being sold for less than the cost of construction). It also suggests that the period after purchase during which the purchaser, if he sells, has to repay his discount should be reduced from 5 years to 3. This is also relevant to encouraging mobility. These measures should encourage many of the 500,000 local authority tenants, who could afford to buy but have not yet done so, to exercise the right to buy.

9. Some tenants will not exercise the right to buy (RTB) eg. because they do not like their homes. One option would be to provide some equivalent to RTB discount for these tenants to buy private sector houses. This would be a radical departure and the report sees serious objections (see para 4.16) but it does recommend more work on two more limited schemes, one designed to release purpose-built dwellings for the elderly and disabled, the other to release public sector accommodation where there is a shortage of it. In both these cases the emphasis is thus on enabling the property vacated to be put to good use, rather than on benefitting the tenant as such.

No

10. The report, and Mr Jenkin, both recommend that measures should not be introduced to encourage home ownership by households on state income support. The fear is that to do so would simply mean the state picking up the bill for mortgage payments and future maintenance etc. The implication of not doing so is that these households must remain in the rented sector, which for most of them for many years is likely to mean the public rented sector.

11. A Homeloan Scheme was introduced in 1978 to provide limited assistance to first-time buyers. It is costing £2.3 million this

year. It has had a very limited take-up and has clearly not been successful. Despite the presentational difficulties, the report recommends it should be wound up. It may not be worth the trouble - Mr Jenkin might best be left to make his own decision.)

Privatisation
(Report, para 21 viii; Mr Jenkin's minute, paras 20-26)

12. Apart from sales to tenants, local authority housing (empty or occupied) can in principle be disposed of to corporate bodies, including developers, private trusts and ownership co-operatives. In the longer term there are likely to be substantial gains to public funds by removing the liability for future management, repair, etc. to the private sector. Progress so far has, however, been very slow. Stockbridge Village (3,000 dwellings) is the only major success. Ministers will want to encourage more to be done, if it can be achieved at moderate cost.

13. Mr Jenkin is in the process of establishing an Urban Housing Renewal Unit, with private sector participation. It should be in place by the end of June. Its main tasks will be to make a more co-ordinated effort to identify the opportunities for, and to encourage strenuously, sales to the private sector and, in the case of tenanted dwellings, to promote suitable arrangements for their management. Mr Jenkin foresees the need for pump-priming through Urban Development Grant and Housing Investment Programmes. He does not indicate the scale of this help nor the likely success.

14. Mr Jenkin also wants to encourage management and ownership co-operatives. The report recommends study of group purchase of estates by tenants and the possibility of a statutory right for a majority of the tenants on an estate to acquire it on reasonable terms. These ideas should no doubt be followed up though there are obvious difficulties in those at the bottom of the housing market exercising these rights effectively.

What remains in the local authority sector

(Report, para 21 vii and ix; Mr Jenkin's minute paras 31,32 and pars 17 to 19)

15. The report recommends that further consideration should be given to changing rents providing an economic rate of return and of improving management by opening it up to competition. (Consultation is in hand on doing this for a range of local authority services.) The charging of economic rents will require rent increases of 25% on average. It will necessarily have implications for housing benefit expenditure, raises issues about enforcement, and would require legislation. However, Mr Jenkin, in consultation with Mr Rees and Mr Fowler, might be encouraged to come forward with proposals.

16. Mr Jenkin also stresses the need to give a high priority to the renovation of the local authority housing stock. He will pursue this in the PESC discussions. Inevitably there is going to continue to be local authority housing and provision will have to be made for it to be maintained adequately. Colleagues are likely, however, to wish to see a well made out case for increases on present provision. Mr Jenkin suggests that it might be easier to obtain agreement on raising rents if the income can be used for refurbishment and improvement.

The Voluntary Sector

(Report, para 21 x and xi; Mr Jenkin's minute, para 33)

17. 2% of the housing stock is owned by Housing Associations. Possible policy changes are to move towards economic rents which should be covered by the comparable work on local authority rents (para 15 above) and to introduce more private finance. Private finance would need a higher rate of return than the present Government money with an effect on rents but the present approach is not consistent either with economic rents or with the concept of subsidy to persons rather than buildings. Mr Jenkin believes that private finance can be obtained (by way of building society index-linked funding) provided there are public sector guarantees and no diminution in public sector investment.

Homelessness
(Mr Jenkin's minute, paras 29 and 30)

18. Mr Jenkin suggests giving greater priority to the problem of homelessness. The numbers of homeless and the cost of board and lodging allowance have both been rising. The problem is not universal but severe in some areas. Mr Jenkin believes that in the longer term deregulation of the private rented sector will help; in the short term he suggests that new build or conversion is a cheaper way of dealing with it than paying hotel bills. This is clearly a marker for the PESC discussions.

Labour Mobility
(Report, para 21 vii)

19. Chapter 8 of the report focusses on the connection between housing and labour mobility. Both public renting and owner-occupation provide inhibitions to mobility; private renting much less so. Deregulation of the private rented sector will help but necessarily marginally. The report recommends that further efforts should be made (eg. through the planning process) to ensure that sufficient housing is available where the jobs are, and that moving for owner-occupiers should be made easier by simplifying house-buying procedures (DoE have just published a report; the Farrand Committee's second report was published in March) and reconsidering the structure of stamp duty on house transactions.

Next Steps

20. The timing of housing legislation is to be discussed at Cabinet on 6 June and you will not want to pre-empt that discussion. (QL are recommending that the only housing legislation next session should be that on deregulation of the private rented sector; home improvement grants, right to buy extension, etc would therefore have to wait until 1986/87).

21. Finally you may like to consider presentation. Is there a case for working towards a comprehensive housing policy document eg. a White Paper, perhaps in the autumn when deregulation of the private rented sector will need to be announced anyway, or is it better to carry on with the present more piecemeal approach? The balance may lie with the piecemeal approach: policy development will be moving at different speeds and public expenditure may not

be settled until late in the year. It may also be better to pursue the policies envisaged without a comprehensive statement of them. But in this case you may want to keep up the impetus by asking Mr Jenkin for a progress report by Christmas. More detailed collective policy consideration of particular aspects can be dealt with in H Committee.

Handling

22. Mr Gregson has now left the Cabinet Office and I think the MISC 113 Report can be left to speak for itself. You may like to begin by inviting the Secretaries of State for the Environment, Scotland and Wales (ie the housing ministers) to give their reactions very briefly. You may then like to say that as there is not long for discussion, you suggest that the meeting should take the current initiatives on home improvement grants and the private rented sector and the general objective of a market-related approach as read; and that it should discuss briefly and in turn extension of the right to buy; privatisation of local authority housing (the Urban Housing Renewal Unit etc); expenditure, rental policy and management of local authority housing; the voluntary sector; homelessness; labour mobility; and next steps. On each the meeting will not need to reach conclusions but should be able to give general guidance for further work. The Secretary of State for the Environment and the Chief Secretary, Treasury, are likely to want to contribute on most aspects. The Minister without Portfolio will be particularly interested in labour mobility.

Conclusions

23. You will wish the meeting to give general guidance on:-

- future policy to be based on a market related approach;

- whether the Government should refrain from measures to promote home ownership by those on state income support;

- whether to study ways of further encouraging take-up of right to buy by those with adequate incomes, and of providing incentives to council tenants to purchase private-sector dwellings;

- whether to encourage privatisation of local authority housing through the Urban Housing Renewal Unit and by enabling tenants to manage/own their estates;

- whether to examine the implications and feasibility of economic rents in the local authority and voluntary sectors;

- whether to open up local authority housing management to more competition;

- whether to give high priority to the renovation of the local authority housing stock;

- whether to pursue the introduction of more private finance into housing associations;

- whether, in the short term, to provide for more housing for the homeless;

- whether to take further steps to promote labour mobility;

- presentation.

You may wish to ask Mr Jenkin for a progress report towards the end of the year.

31 May 1985

C J S BREARLEY

CONFIDENTIAL

The Prime Minister

HOUSING POLICY REVIEW

1. You may wish to have my initial reactions to the report of the official group before we meet to discuss it on 4 June. The issues for Ministers listed in paragraph 21 of the Chairman's Note need to be considered within a political framework.

BACKGROUND

2. There are 11.5 million owner-occupied dwellings in England, 63% of total stock. 3.5 million (30%) were built before 1919, 2.8 million (24%) between 1919 and 1945, and 5.2 million (45%) since the war.

3. There are 4.7 million dwellings owned by local authorities and new towns, 26% of total stock. 0.2 million (4%) were built before 1919, 1.0 million (21%) between 1919 and 1945 and 3.5 million (75%) since 1945. Of the local authority and new town stock, 1.6 million (34%) are flats.

4. There are 440,000 dwellings owned by housing associations, 2% of total stock. 240,000 of these are flats, 55% of total housing association stock.

5. The private rented sector accounts for 1.7 million dwellings, 9% of total stock. In recent years this sector has been declining by about 70,000 per year.

6. Local authority HIP returns, and the returns from the Housing Corporation and new towns, showed that at 31 March 1984 there were 116,000 empty public sector dwellings (2.2% of the total) and 548,000 empty private sector dwellings (4.3% of the total).

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Achievements since 1979

7. The main aim of our housing policy has been to increase the level of home ownership. By December 1984 owner occupation had reached 63%, compared with 57% in March 1979. (Figures here and elsewhere are for England). Over this period the number of owner-occupied dwellings increased by 1.5 million, of which 700,000 represented sales of public sector dwellings, both under the right to buy (RTB) and voluntarily. About 13% of the public sector stock has already been sold to the private sector in this way, and sales are likely to continue, though at a lower level. (In the public expenditure survey we have assumed sales of 90,000 in 1985/86 and 80,000 in 1986/87). Owner occupation has also been promoted through our low cost home ownership initiatives.

8. In 1981 more than a million and a half privately owned homes were in a very unsatisfactory condition. the position has improved since then, partly as a result of a high level of spending on improvement grants over the last three years; but disrepair remains a significant problem. The improvement grant system needs to be better targetted, and a Green Paper was published on 9 May, with a view to legislation next session.

9. The private rented sector has continued to decline. Our proposals for deregulating new lettings should begin to reverse this trend and lead in the longer term to an increase in the supply of housing to rent.

10. In the public sector we have encouraged local authorities and new towns to concentrate resources on the maintenance and improvement of their stock. New build should be provided only for those whose needs cannot be met in the private sector.

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11. Local authority rents have risen substantially as a proportion of earnings, from the lowest figure since before the war in 1979/80 - 7%-to 9.7% in 1984/85. But about 65% of local authority tenants are on housing benefit and thus have their rents met wholly or partly by the Exchequer; 35% have their rents met in full.

12. We have had some success in encouraging the disposal of empty local authority blocks of flats to developers (eg Minister Court in LIverpool), and a major success in securing the disposal of a whole tenanted estate of 3000 dwellings to a private trust for refurbishment, infill, and reletting (Stockbridge Village in Knowsley).

Problems and policies for the future

13. As a strategy for the future the report of the Official Group recommends the development of a market related approach to housing policy. I agree with this. However the market is not free today, because of housing benefit, housing subsidy, tax relief on mortgage interest (for reasons which we all understand), and the Rent Acts. Our policies for the deregulation of the private rented sector and for targetting improvement grants on those who need them are important steps in the direction suggested by the report. Both will reduce distortions in the market; and over a period dergulation should have the effect of increasing supply.

14. The growth of owner-occupation will continue. The availability of mortgage finance at reasonable interest rates is crucial; so is an adequate supply of land for private builders. If we have a Housing Bill in 1985/86 public attention will be focussed for some time on deregulation and improvement. I see no need for any other major initiative in relation to housing already in the private sector.

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15 The main problem is the 4.7 million dwellings owned by local authorities and new towns - in particular we must decide

a) how to ensure that as much of the stock as possible is transferred to the private sector;

b) how to secure the maintenance and improvement of the present stock; and

c) how to maintain an adequate supply of rented housing for those who cannot afford owner occupation and for whom the private sector does not yet cater.

In considering options we must bear in mind that about a third of council tenants are on supplementary benefit and thus have their rents met in full, and another third have part of their rent met through housing benefit. None of these can readily afford to buy, or to pay substantially higher rents out of their own pockets. Of the remaining third (1½ million) only about 500,000 have enough income to buy under the current right to buy rules, which include an entitlement to discount; fewer than this could afford to buy at open market prices.

16 The most pressing problem is the condition of the local authority stock. About one million dwellings - nearly a quarter of the total - have been assessed as "difficult to manage", partly as a result of their condition. Complaints from local authorities and tenants are increasing and are likely to increase further. The publication of the Report of the Duke of Edinburgh's Inquiry in July will sharpen public focus on the extent of the problem.

Condition of the local authority stock

17 Details are given in chapter 6 of the report and in Annex F. We shall have more quantified information when returns to a special inquiry by my Department have been received at the end of May; and new Survey-based information when the results of the 1986 English House condition Survey become available, probably in the autumn of 1987.

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18 Capital expenditure on improvement and repair is at present running at about £1.2 billion a year. The available evidence points to a need for capital expenditure to deal with repair and modernisation backlogs of the order of £20 billion, which might be spread over 10 years. This would mean adding up to £800m to the existing PESC provision. Another £1.2 billion of current expenditure is spent on routine maintenance and repairs and met from rents, Exchequer subsidy and contributions from the rates.

19 The renovation of the stock will require resources - public or private. The greater part of the cost is likely to fall on the public sector because those living in this housing are for the most part too poor to bear the costs themselves. But whatever public expenditure may be available, it will fall short of what needs to be spent. This strongly reinforces the case for encouraging local authorities to dispose of their stock to private developers who are willing to renovate it for sale or for rent.

Transfers of Stock to the Private Sector

a) Urban Housing Renewal Unit

20 Disposal to the private sector covers sales to individuals and to corporate bodies, including developers, private trusts and ownership co-operatives.

21 I announced on 26 February that I was setting up an Urban Housing Renewal Unit, with private sector particpation, whose task will include the promotion of sales of local authority housing stock to private developers for refurbishment and onward sale to owner occupiers and to trusts or ownership co-operatives. I hope that it will be in place before the end of June. It will be responsible for directing public resources to the areas of highest priority and attracting private resources as far as possible.

22 For empty local authority dwellings there is a limited commercial market. So far about 3500 empty dwellings have been sold to developers for refurbishment. We shall do our utmost to accelerate this rate.

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23 We have not yet succeeded in interesting private investors in tenanted dwelling on a large scale. Stockbridge Village (3000 dwellings) is the only significant example so far. One of the reasons is that the return available to them is limited by rent regulation. Deregulation of new lettings will help to some extent. But transfer of ownership to the private sector will not be welcomed by tenants if it means big increases in rents. Moreover 65% of tenants are on housing benefits.

24 What is required, therefore, short of a new power of compulsion ~~(see paragraph 26 below)~~, is a more co-ordinated effort to identify the opportunities for, and encourage strenuously, sales to the private sector and, in the case of tenanted dwellings, to promote suitable arrangements for their management. These are the Unit's main tasks. If more privately financed trusts can be established to refurbish estates, thereby increasing the level of individual sales while continuing to manage a substantial number of tenanted dwellings, there should be long term gains on capital and current account as well as immediate benefits to the residents. There will be a higher cost to public funds in the longer term if the housing is left in local authority ownership and allowed, through lack of resources, to deteriorate further.

25 However, experience has proved that to attract private investment we shall need to prime the pump with public resources. The instruments available to us for pump-priming are Urban Development Grant, the Urban Programme and Housing Investment Programme (HIP) allocations. We shall certainly need to use these in the inner cities, where housing conditions are often very bad and where the market will not solve problems by itself.

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26 I also want to encourage tenants to take over the management and/or ownership of their estates. There are about 20 management cooperatives on local authority estates in England where tenants control a budget for the maintenance and management of their housing. There are no instances of Council tenants acquiring their own estates although some few have formed housing association cooperatives to undertake new-build schemes, funded by housing association grant (HAG), which provide an attractive alternative to further building by local authorities. Tenant cooperatives require a high degree of commitment and good leadership, but if these can be fostered they have a most valuable role. We should consider whether a majority of tenants on an estate could be given right to acquire it on reasonable terms.

b) Further Encouragement of Home Ownership Among Council Tenants

27 The peak for sales under the right to buy was reached in 1982. I expect sales to continue - perhaps at about 80,000 a year - but they will not make a dramatic impact. I agree with the report's conclusion that we should not take measures to promote home ownership by those in receipt of state income support. Other measures, particularly relating to the sale of flats, are under consideration by my Department. Although there is no evidence that council and District Valuers are ignoring the provisions of the legislation when setting market values on flats under the right to buy we must look further at the question of selling prices, possibly by giving extra discounts on flats sales.

28 The report suggests further study of a scheme of selective assistance to encourage tenants to move out and buy their own homes where this would make it possible to sell a block to a developer or to release housing for those in greater need. In the light of the current concern about the growth of homelessnes we may do best to concentrate on the latter aspect and I am preparing urgently a proposal to put to colleagues as part of a package which I hope

to announce before the summer recess. This could also be an effective response to the Labour Party proposal to make grants or discounts available in areas such as the inner cities where in their view the right to buy should be restricted.

Need for housing to rent

29 There is an increasing shortage of accommodation for renting in particular areas. There is mounting concern about the increases in homelessness. Acceptances by local authorities under the homelessness legislation rose from 38,000 in the last 6 months of 1982 to nearly 42,000 in the last 6 months of 1984; an increase of 10%. The number of supplementary benefit recipients receiving board and lodging allowances has risen by over 180% in the five years 1979 to 1984. The annual cost of payments has risen from £52m in 1979 to an estimated £380m in 1984 (calendar years).

30 Deregulation of the private rented sector will help. But we shall also need to consider the case for a higher level of provision for new rented housing - particularly by housing associations - to deal with the serious problem of homelessness. Public expenditure on new build or conversion is a cheaper way of dealing with homeless families than paying for accommodation in hotels.

Rate of Return Rents

31 The report suggests a move to rate of return rents in the local authority sector and perhaps for housing associations as well. I agree with this as a longer term aim. However, on a 4% rate of return rents would have to rise by nearly 25% on average, and by much more in London. We could not force local authorities to increase their rents in this way unless we were prepared to intervene much more directly in rent setting than has ever been done before. We should have to find some way of putting a value on each authority's housing stock for the purpose of setting the rate of return; domestic rateable values would not be an attractive basis. Legislation would be needed.

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32 Alternatively we could move towards higher local authority rents - without adopting a formal rate of return policy - by continuing to rely on the existing instruments of influence (rather than control) through the housing subsidy system (which now applies to only a minority of authorities - 78 out of 367 in 1985/86 - not necessarily those with low rents) and the rate support grant system. It would be easier to gain acceptance for this policy if we agreed to allow local authorities greater freedom to use the extra rent income to refurbish and improve their stock; this would require some changes to the present capital control system.

Private Finance

33 I attach great importance to expanding the use of private finance for housing association activities (paragraph 7.9 of the report). This is in line with out political philosophy, and, if it can be achieved, should have the benefit of encouraging the wider involvement of the private sector in the provision of rented housing. Index-linked finance provides a means of achieving this, and we have already agreed a modest scheme of index-linked mortgages for shared-ownership schemes, worth about £20 million in 1985/86, as part of the Housing Corporation's programme. I want to expand this into the provision of rented housing. The Housing Corporation estimates that about £50 million could be added to its programme each year by the use of private sector index-linked funding. But, if the private sector is to play a larger role, we shall need to provide public sector guarantees, at least in the interim, and the building societies will need to be assured that their input will lead to increased housing association activity, and will not simply replace sector investment.

Conclusions

34 The report recommends a market-related framework for the development of housing policy. I agree. But the report also shows that there is no easy way in which the problems of poor quality housing stock - especially in the public sector - can be solved

without a continuing programme of public expenditure. Privatisation will help; and we should build on the initiatives already taken. But private investors will only be attracted if they can be confident of a reasonable return; and that in turn depends on prospective purchasers and tenants having income high enough to meet the costs of provision.

35 In summary, I invite colleagues to agree that -

(a) we should expand our efforts, through the Urban Housing Renewal Unit, to transfer ownership of local authority housing to the private sector as far as possible, using the instruments available to us for pump-priming;

(b) we should consider measures, including the possibility of an extra discount, to encourage sales of flats under RTB; but we should not introduce measures to promote home ownership by households on state income support;

(c) we should pursue the idea of a scheme of selective assistance to encourage council tenants to move out and buy, thus releasing rented accommodation in areas of acute shortage;

(d) in the meantime, a high priority should be given to the renovation of the local authority housing stock; this is a matter for the PESC discussions;

(e) in addition to c and in the shorter term, we must consider giving greater priority to the problem of homelessness;

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(f) in considering moves to higher local authority rents, we should take account of possible changes to the capital control system;

(g) we must find ways of increasing the use of private finance in housing association activities.

36. I am copying this minute to the Lord President, the Secretaries of State for Scotland and Wales, the Secretary of State for Social Services, the Chief Secretary, the Minister without Portfolio and to Sir Robert Armstrong.

PJ

23 May 1985

23 MAY 1985

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22. May 1985

SURPLUS LAND AND EMPTY HOUSING

Thank you for copying to me your letter of 13 May to Patrick Jenkin.

I am content for the problem of disposal of Government Pipeline and Storage System sites, which I highlighted in my letter of 18 March, to be discussed between our officials.

I confirm that, apart from the NCB which is the subject of six-monthly returns to DoE, none of the industries for which I am responsible own a significant number of empty houses.

Copies of this letter go to the Prime Minister, members of E(DL), Ministers in charge of departments not represented at E(DL) and to Sir Robert Armstrong

PETER WALKER

Hanang; Policy Pt 5

22 MAY 1985

PRIME MINISTER

REPORT OF THE OFFICIAL GROUP ON HOUSING POLICY

Tuesday 4 June

After the recess you will chair a meeting of Ministers to consider the report of the official group on housing policy, of which I was a member. Peter Gregson's introduction (pp. i-xi) gives a full summary of the analysis and conclusions. The Annex to this brief gives a shorter summary of the recommendations.

Housing policy: salient facts from the report

There is no housing shortage generally, though there are local shortfalls (eg in London) and there is a shortage of cheap housing for the poorest.

Our housing conditions compare favourably with those in Western Europe, but there is growing concern about the need for repairs.

The growth in owner-occupation continues at 1% per year and is now at 60% in Great Britain.

The private rented sector is still tightly regulated and has continued to decline: it is now only 9% of all GB dwellings.

There has been a fall in public expenditure on housing from £5.5bn in 1979-80 to £3bn in 1985-86. But the cost of housing benefit has risen from £1.2bn to £4.3bn (because housing allowances have been phased out, real council rents have risen and rates have gone up) and the tax loss from mortgage interest relief has risen from £1.4bn to £4.5bn (because there are more owner-occupiers and interest-rates are higher).

Recommendations deserving support

Most of the recommendations in the report deserve support. Taken with the major housing policies already in the pipeline, notably full deregulation of new private renting and replacement of some home improvement grants by loans, they could be the basis of a radical but practical housing policy.

In the owner-occupied sector, many of the recommendations are aimed at helping people to buy their homes more easily: for instance, those public-sector tenants who do not have the right to buy should be allowed the right to buy in the private sector; the artificial "cost-floor" limitation on sale prices should be removed; and there should be reasonable limits to service-charges for buyers of flats. There would be plenty of votes in this.

In the local authority sector, the thrust of the recommendations is that housing management should, as far as possible, be taken out of the public sector and put into the hands of tenants and companies bidding competitively for the business of running council estates. Group purchase by tenants should be encouraged and the law should restrict the scope for obstruction by reluctant councils. And the law should give people the right to demand that vacant council dwellings should be sold on the open market - what Patrick Jenkin calls "the citizen's right of compulsory purchase". We like this idea - and we think it should be coupled with early action to dispose of the 10,000-25,000 acres or so of public-sector land suitable for housing which are sitting on the DoE registers.

To encourage housing mobility, planning restrictions should be reduced (the Sainsbury review supports our contention that the presumption against planning permission now enshrined in many local and structure-plans should be removed and the legal presumption in favour restored); house-buying should be simplified in accordance with recent proposals on conveyancing and building societies; and stamp duty on house purchase should be cut again.

Rate-of-return council rents are recommended in the report. Real rent levels have risen steeply in recent years: and this rise should, in our view, continue. Of course, housing benefit rises as rents rise: but, on the other side of the equation, subsidies to the housing revenue account dwindle. Overall, there is a big saving: and the true extent of housing subsidy to each household is made more visible.

Some radical proposals not in the report

Poorer people's Right to Buy is one proposal which would save public money and give even those on very low incomes or on SB the chance to buy their council houses. DoE have estimated that about one-third of council tenants would never be able to afford to buy their homes on the present basis. Most members of the group felt that poorer people should not be given the right to buy; but we think the right of poorer people to buy is entirely consistent with the Government's policy and that the poor should be given the chance to own their homes **in all cases where a saving of public money, or at least no net public cost, can be reasonably demonstrated.**

Building no more council houses: DoE officials told the group that there was a need to build an extra 25,000 council houses a year, at an annual cost of £750m. We and the Treasury strongly disputed this need. We think councils should build no new houses from now on: the building and management of new properties can and should be left to the private sector. The first step towards making the public sector smaller is to ensure that it cannot get any bigger.

other than for special needs

The infrastructure problem

Because the overall housing budget has been cut, some of the Opposition's onslaught on us for our alleged failure to maintain the country's crumbling infrastructure is being concentrated on housing. Items are appearing in the Press and on television with increasing frequency pointing out how bad some of our housing is and suggesting that the Government is to blame. Between now and the next Election, we shall need what Ron Reagan calls a "continuing campaign" to get across the facts (eg the steady improvement in the standard of the housing stock - 50% of homes unfit or inadequate in 1951: less than 10% in 1981; Government expenditure on private-sector home improvement up fourteenfold since 1977/8).

The homelessness problem

We should deregulate the private rented sector for new lets in the 1985/6 session of Parliament. This measure would do more than any other to reduce homelessness. It would make available private homes which now stand empty or under-used because of the rent acts. And it would encourage landlords to invest in building for rent.

We should put a lot of pressure on local authorities (particularly in London, where homelessness is worst and where the most public-sector stock is standing empty). This is where Patrick Jenkin's citizen's compulsory purchase comes in.

In a few places where the urban magnet has attracted very poor people whom councils have been forced to house in expensive and substandard bed-and-breakfast accommodation, we should think about making extra cash available for new building and renovation of council housing **by the private sector.**

But we should **not** fall for any of the specious DoE figures which suggest that there is a need for many more council houses to be built each year. In general there is no such need, as we and the Treasury pointed out in the Committee. In some specific locations (eg London) and for some specific special needs (eg the elderly or disabled) there is still a need for more building. But there is no general need for new build, and we think that such new build as does take place should henceforth be done by the private sector. Local authorities have proved to be disastrously inefficient builders and managers of housing and their role should continue to be reduced as, under this Government, it has been.

CM.

CHRISTOPHER MONCKTON

21 May, 1985.

ANNEX : OFFICIAL GROUP ON HOUSING POLICY : SUMMARY OF PROPOSALS

Service charges for flats should be broadly in line with the estimate given to the tenant at the time of purchase.	Owner-Occup. Sector
Flat-buyers' payments for structural defects should be limited.	
The scope for cutting the sale-price of council flats and removing the "cost-floor" for council-house sales should be examined.	
Right-to-Buy buyers have to repay all or part of their discount if they sell within five years: this should be cut to three.	
The majority recommended against measures to give people on SB the chance to buy their homes. The Policy Unit questioned this.	
? Schemes to give some council tenants the right to buy in the private sector should be considered.	
The Homeloan scheme to lend £600 interest-free for five years helps only 1% of first-time buyers and should be wound up.	
The feasibility of a Government-financed training and support scheme for tenant management co-operatives should be studied.	Local Auth. Sector
Housing management should be included in the new competitive regime to be applied to other local authority services.	
The public expenditure implications of group purchase of estates by tenants should be examined.	
Councils should set up tenant buyouts, and there should be last-resort powers of compulsion for obstructive councils.	
Legislation giving people the right to demand that vacant council dwellings be sold on the open market should be considered.	
Council rents should be put up to yield an economic return. Housing benefit	
Rental policy in the voluntary sector should be rethought in the light of decisions on local authority rate-of-return rents.	Volunt. Sector
More private finance should be attracted to housing associations.	
In areas where jobs are being created, restrictions on building new houses should be removed (eg structure-plan restrictions).	Mobility
Recent proposals to simplify house-buying should be implemented.	
The structure of stamp duty on housing sales should be rethought.	
Deregulating the private rented sector would help labour mobility and employment and would lead to a freer market.	Current Issues
Home improvement loans rather than grants would lead to less public spending and more personal responsibility.	

35/254

NBPM

AT 14/5

cc NO

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of Environment
2 Marsham Street
LONDON
SW1 3EB

13 May 1985

Dear Patrick.

SURPLUS LAND AND EMPTY HOUSING

Thank you for your letter of 19 March about the surplus land and empty housing initiative and for copying to me your letter of 11 April to Peter Walker. I also have Peter's letters of 18 March and 2 April, the letter from Douglas Hurd's office of 18 March referring to his earlier letter of 21 February and Nicholas Ridley's, George Younger's and Norman Tebbit's letters of 19, 20 and 29 March respectively.

I am grateful to you and to colleagues for your comments on the Survey guidelines and they have now issued. I agree that there should be a measure of flexibility in the target arrangements, but the end of 1987-88 is nearly 3 years away and this should give most departments and NDPBs plenty of time in which to dispose of surplus holdings. The success of the initiative depends upon a sustained effort by departments with surplus holdings and I hope that colleagues will take a close interest in the disposal programmes of their departments and the NDPBs for which they are responsible. The difficult cases such as those mentioned by Peter Walker will need to be discussed by our officials during the course of the Survey. I hope that exceptions to the 3 year disposal target will be few, (though for the reasons Norman Tebbit sets out, I accept that the English Industrial Estates Corporation should be one of them).

If little progress is made on the surplus holdings of departments and NDPBs, your efforts with the local authorities and those

of colleagues with the nationalised industries are likely to be undermined. We should set the best possible example to the industries and the authorities by disposing of our surplys holdings promptly.

You suggest that, as part of the annual Investment and Financing Review (IFR), detailed information should be collected on various categories of empty housing owned by the nationalised industries. I must say that I am not convinced that we need to do this in order to fulfil our objectives and I have considerable sympathy with the points made by Peter Walker in his letter to me of 2 April. I enclose a copy of part of the information that we are seeking from industries in this year's IFR and you will see that we have asked them to set out their proposed receipts from land, empty housing, and other buildings. I think this will be sufficient, taking into account the other information on housing that is being separately collected by your Department, without giving undue weight to this aspect of the industries' overall performance. However, it is important that industries with significant holdings of empty houses are not treated any more lightly than Departments. I should therefore be grateful if Sponsor Ministers would confirm that nationalised industries other than those covered by the DOE returns (BR, British Waterways Board, CAA, BAA, Water Authorities, NBC and NCB) do not have significant stocks.

Both Norman Tebbit and Nicholas Ridley have questioned whether separate specific disposal targets are needed for nationalised industries. What we have in mind is that, in agreeing future EFLs for industries, we should make sure that an appropriately challenging level of disposals has been assumed. By doing this, the EFL will effectively subsume a disposal target; but the normal commercial flexiblities will have been maintained. The key point, of course, is that we need to make sure that the industries are taking this exercise seriously and that industries are held to account if they do not achieve their targets.

Douglas Hurd has raised a number of points about targets for Northern Ireland and, more generally, how targets fit in with the existing system for calculating the territorial effects of Survey decisions. Officials are in discussion with the aim of working out arrangements which ensure that the territories' treatment mirrors that of other departments.

I am copying this to the Prime Minister, members of E(DL), Ministers in charge of departments not represented at E(DL) and Sir Robert Armstrong.

JOHN MOORE

Table 2.

NATIONALISED INDUSTRIES FINANCIAL INFORMATION SYSTEM

INVESTMENT AND FINANCING REVIEW 1985

ANALYSIS OF FIXED ASSET EXPENDITURE

Industry _____

£ million cash

	1985-86 estimated outturn		1986-87	1987-88	1987-89
36		Dwellings			
37		Other new construction			
38		Land and existing buildings			
39		Vehicles (including ships and aircraft)			
40		Plant and machinery			
41		Nuclear fuel			
42		Capitalised interest			
43		Capital value of new leased assets			
01		TOTAL EXPENDITURE ON FIXED ASSETS IN UK			
		MEMO: SALES OF FIXED ASSETS (i) Land and existing buildings			
12A		(a) land			
12B		(b) empty housing			
12C		(c) other buildings			
12D		(ii) Vehicles,plant and machinery			
12E		(iii) Other			
12		TOTAL SALES OF FIXED ASSETS			

MEMO: DISPOSAL OF UNUSED AND UNDERUSED LAND

(Acres)

Held at 31 March 1985	1985-86 expected disposals		Expected Disposals		
			1986-87	1987-88	1988-89
		Unused and underused land			

Notes

1. Row 12A should include receipts from sales of all land whether or not entered on Department of Environment Registers.

2. Memo item relates to land covered by the Department of Environment Registers in England plus equivalent holdings in Wales and Scotland.

Housing : Policy Pt 5

14 MAY 1985

CONFIDENTIAL

NBPM BF 13 5 CCNO

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

10 May 1985

Dear George,

Thank you for your letter of 3 May about the Green Paper "Home Improvement - A New Approach" which was published on 9 May.

You mention two reservations which you have about the policy outlined in the Green Paper. The first concerns the proposed fitness standard. This does not include requirements concerning artificial lighting or heating, and treats dampness and structural stability in a way you feel may be too restrictive for Scotland. In all these respects the proposed standard for England and Wales is consistent with the content and interpretation of the present fitness standard. The Green Paper makes clear that we believe that a policy of raising the fitness standard to meet rising social expectations would be inappropriate.

Of course, as you point out, the present Scottish tolerable standard already has significant differences from the fitness standard, for example the inclusion of requirements concerning artificial lighting and heating. If colleagues accept the argument you put forward for a higher standard in Scotland than in England and Wales, it can be pointed out publicly that your standard reflects different Scottish circumstances. I see no insurmountable problem in that.

The arguments for more generous treatment of tenements for the purposes of grants and loans also rest on special Scottish factors. Again, if colleagues are willing to allow some relaxation of means-testing in such circumstances, it will be on these grounds.

I shall be interested to see how you intend to present these points in your consultation document. However, the decision whether to agree to such provisions for Scotland is, I think, for others who attended the meeting on 6 March rather than for me.

Your letter also raises the question of legislation. I am keen to legislate on the Green Paper proposals in 1985/6 if at all possible. No doubt John Biffen will have noted that, if I am successful, you will be pressing for the planned Scottish Housing Bill to be extended in scope.

I am copying this letter to the Prime Minister, Willie whitelaw, other Members of H Committee, Norman Tebbit, David Young, JOhn GUmmer and to Sir Robert Armstrong.

Yours ever

Patrick

PATRICK JENKIN

The Rt Hon George Younger TD MP

Housing Pts
Policy

13 MAY 1985

CMO CONFIDENTIAL

RW (42)

FILE

B/c: MR MONCKTON

10 DOWNING STREET

From the Private Secretary

7 May 1985

PRIVATE RENTED SECTOR

The Prime Minister has seen your Secretary of State's minute of 3 May. She has noted the estimates of the effects of de-regulation of the private rented sector on the PSBR. In the light of these, she is content that the Bill should be considered by QL for a place in the 1985-86 legislative programme.

I am sending a copy of this letter to the Private Secretaries to members of Cabinet and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

J Ballard Esq
Department of the Environment

CL

10 DOWNING STREET

From the Private Secretary

(1)

Prime Minister

Other Ministers have agreed on the likely costs, and in the longer term savings from deregulation; and have agreed how such public expenditure can be accomodated.

Agree this may go forward to QL to bed for a place in 1985-86 session?

Mr Jenkin will probably be offered a choice by QL, this Bill or his Bill on local authority capital controls, contracting out of services, and planning. I would prefer this Bill. It is more important, even revolutionary; and it can only be done in 1985-86. ~~[illegible]~~ Delaying the other Bill is disappointing but no more.

AT

3/5.

Agreed MT

PRIME MINISTER

PRIVATE RENTED SECTOR

We support Patrick Jenkin's proposal that colleagues should now agree to the deregulation of the private rented sector approved by H Committee on 27 February.

Patrick has reached agreement with Nicholas Edwards, Norman Fowler and Peter Rees on how to meet the small short-term cost of the extra housing benefit on the higher rents which DoE think would arise. As you know, Alan Walters shares our view that there will be small PSBR savings in the short term, not costs, and we agree with DoE that the long-run savings will be substantial. Sam Brittan, in the Financial Times, recently calculated the net present value of the savings in the first 50 years after deregulation at £5bn-£9bn.

We share Patrick's view that setting maximum levels for paying housing benefit on deregulated lettings and fixing them at some point below market rents, or altogether excluding tenants of deregulated lets from housing benefit, would defeat the objects of deregulation, which are to help job mobility, to free the market, to make the best possible use of the housing stock and to reduce homelessness.

We recommend that you should write to Patrick saying that you agree that QL should consider making room for a Housing Bill in the 1985/86 session.

CM

CHRISTOPHER MONCKTON

3 May 1985

CMO CONFIDENTIAL

CONFIDENTIAL

PRIME MINISTER

PRIVATE RENTED SECTOR

At its meeting on 28 February, Cabinet deferred a decision to include the proposed Housing Bill in the programme for the 1985/6 session, pending further consideration of the public expenditure consequences of my proposals for deregulating new private sector lettings. I was asked to examine, in consultation with Nicholas Edwards, Norman Fowler and Peter Rees, whether deregulation could be achieved without incurring any additional public expenditure costs.

We have thought it right to look at this issue within the rather broader context of MISC 111's examination of the reform of the social security system since deregulation would lead to an increase in public expenditure to the extent that rent rises following the removal of rent control were supported by housing benefit.

MISC 111 has now recommended to Cabinet 4 specific proposals to improve control of housing benefit expenditure:-

i. local authorities to bear 20% of the cost of housing benefit payments, giving them a greater incentive to keep costs down;

ii. local authority powers to withhold benefit in respect of unreasonable rents or increases in rent to be strengthened;

iii. closer scrutiny of subsidy claims;

iv. a reserve power to impose a rent cap on any individual local authority which was judged to be behaving unreasonably.

Although we have not yet finished discussing the social security review in Cabinet, I think it is reasonable to assure that colleagues will endorse these particular proposals.

I believe that these measures will minimise the risk that private landlords will be able to use deregulation to exploit the housing benefit system. They enable us to rebut any suggestion that landlords

can simply play the system in order to line their own pockets.

These measures, by encouraging local authorities to look critically at benefit claims, should reduce the public expenditure cost of deregulations, though by how much it is difficult to say. A reduction of 10% in the estimates considered by H Committee might be reasonable and on this basis deregulation would result in an increase of about £26M in housing benefit expenditure (England and Wales) in the first full year rising to £55M in year 5. This is the public expenditure cost. The additional cost to the Exchequer would of course be lower as a result of the decision that local authorities should fund 20% of benefit payments.

It would only be possible to reduce our estimates further by imposing rent maxima for the payment of housing benefit on deregulated lettings and fixing it at some point below our estimate of the probable level of market rents, or by excluding the tenants of deregulated lettings from entitlement to housing benefit.

Norman Fowler and I have considered both these options carefully. We are convinced that neither is desirable. There was no support in MISC 111 for the general imposition of rent maxima for payment of housing benefit because of the practical disadvantages, the danger of causing hardship, and the risk that maxima would tend to become the norm. These arguments apply with equal force to deregulated private sector lettings. More generally, we do not believe that it would be right, in relation to entitlement to housing benefit, for one class of tenant to be treated differently from others. If the objectives of deregulation are to stimulate the private rented sector to meet both the short term needs of the mobile and the longer term needs of those who would otherwise look to the public sector for rented accommodation, the achievement of the second objective in particular would be frustrated to a greater or lesser extent by removing or limiting entitlement to benefit. Moreover it would almost certainly cause hardship amongst tenants. While we must, of course, prevent abuse of the housing benefit system, it would be counter-productive if limitations on the

payment of benefit to private tenants deterred those tenants, or their landlords, from taking advantage of the new freedoms which deregulation will offer. On those terms deregulation would look politically very unattractive.

Deregulation would also have secondary effects on the social security budget, as higher rents would lead to an increase in the RPI, and thus to benefits linked to the index. We have estimated the cost, very crudely, at £9M in the first year rising to £13M in year 5. These costs are unavoidable.

It is worth emphasising that the PSBR costs of deregulation are significantly lower than the public expenditure costs because of the additional tax income from higher rents and a reduction in tax relief on mortgage interest for those who rent rather than buy. And if deregulation stimulated only a modest increase in the supply of rented dwellings we could in the medium term expect to see substantial PSBR savings.

I conclude that if we want to achieve the benefits which deregulation will bring - for our housing policy and for labour mobility and therefore employment - we have to accept a relatively small increase in public expenditure. Peter Rees has made it clear that this cost will have to be found within the existing overall planning total. As I reported when we last discussed at Cabinet, Nicholas Edwards and I have agreed, with Peter Rees, on the contribution towards that cost that we are to make from our existing programmes.

In these circumstances, and with the full support of Nicholas Edwards, Norman Fowler, Peter Rees and David Young, I hope that you and other colleagues can now agree to the proposals to deregulate the private rented sector which were approved by H Committee on 27 February. The next step would then be for QL to consider whether a place can be

found for a Housing Bill in the 1985/6 session to give effect to this and my other proposals for housing legislation.

I am copying this minute to other members of the Cabinet, Sir Robert Armstrong and John Redwood.

for P J
3 May 1985

Approved by the Secretary of State and signed in his absence.

NBPM cc NO
AT 3/5

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

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

3 May 1985

Dear Patrick,

PRIVATE SECTOR HOUSING IMPROVEMENT POLICY

sole copy presently with Policy Unit

Thank you for copying to me your letter of 2 April to Willie Whitelaw enclosing a copy of the revised draft of the Green Paper for England and Wales. I have also now seen a copy of Willie's response of 19 April in which he gave the approval of H Committee to publication.

I was broadly content with your approach, including the proposal to offer grant aid in respect of mandatory works and equity-sharing loans in respect of discretionary works. This provides a clear distinction between the two types of aid and, although I still have some reservations about the incentive value of loans, I believe the categorisation of types of works and aid in this way is defensible. I noted your preference for the omission of any reference to private loans with public guarantees and I did not dissent from that view.

Although I did not wish to influence the application of your proposals to England and Wales, I am afraid I must reserve my position on the application of some of them to Scotland, where there are very distinct differences in housing conditions. It might be helpful therefore if I put the two major points on record now, in advance of the actual publication of your paper.

My principal reservation relates to your proposed fitness standard, which I am very concerned to note makes no reference at all to artificial lighting or to heating, both of which are in the current Scottish tolerable standard (to which you make explicit reference) and arguably should be basic elements of 'fitness' in the twentieth century. The tightly drawn provision concerning dampness, and to some extent that concerning structural stability, also give me cause for worry. The rather more severe climatic conditions in Scotland, and the tenement construction of many dwellings, have meant that adequate heating, freedom from dampness and exteriors which are wind and watertight have long been highly contentious issues here. I am afraid your proposed fitness standard will be seen in Scotland as a straightforward attack on the minimum standards which already exist and even so, it is

argued in certain quarters, are inadequate. You may even wish to look again at this proposal in the light of representations you may receive in response to the paper. For Scotland I would wish to retain the existing tolerable standard, with the addition of a fixed bath or shower; that was the proposition in my original draft paper.

My other major reservation applies specifically to Scotland and arises from a combination of the global application of means-testing and the amalgamation of the present provisions for improvement and repairs assistance. I am extremely anxious to maintain the impetus of our comprehensive tenement rehabilitation programme and I believe that, to do so, I need to look for some means of accommodating within the new improvement policy the very specific problems which arise from it. This will, I think, call for some degree of relaxation in Scotland of the means-test rules for mandatory improvement works and major repairs along the lines discussed and agreed in H Committee last October. I shall expand on these points when I circulate our proposed Scottish consultation document, as I hope soon to do.

I have also noted that you hope it may prove possible to legislate on improvement policy in the 1985/86 Session. If that proves to be the case, the Scottish Housing Bill already scheduled for that Session will need to be widened in scope to include improvement policy. I believe it is essential that the legislation for both countries goes through in the same Session.

I am copying this letter to the Prime Minister, Willie Whitelaw and other recipients of your letter.

Yours ever,

George.

Housing : Policy A5

E-3 MAY 1983

Prime Minister ②
AT 29/4

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434
My ref:

Your ref:

29 April 1985

Dear Andrew

LARGE SCALE HOUSEHOLD SURVEY

Thank you for your letter of 25 April.

My Secretary of State is content to postpone a decision on the survey for about six months while the new system of local government fiannce is being settled.

Copies of this letter go to the recipients of yours.

Yours sincerely,

Sue Vanderwood

SUE VANDERVORD
Private Secretary

Andrew Turnbull Esq

29 APR 1985

Rle ECL

10 DOWNING STREET

From the Private Secretary

25 April 1985

LARGE SCALE HOUSEHOLD SURVEY

The Prime Minister has seen your Secretary of State's minute of 22 April. She remains unconvinced that this survey is essential, particularly when the Government is about to embark on a major review of local government finance which is likely to produce significant changes in the way grant to local authorities is allocated. She feels, therefore, that a decision should be postponed for about six months when the shape of the new finance system and its data requirements are clearer.

I am copying this letter to David Normington (Department of Employment), Richard Broadbent (Chief Secretary's Office, HM Treasury), Richard Hatfield (Cabinet Office) and Sir John Boreham (Central Statistical Office).

(Andrew Turnbull)

John Ballard, Esq.,
Department of the Environment.

NDPM AT 25/4

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

24 April 1985

The Rt Hon Patrick Jenkin
Secretary of State for the Environment
Department of Environment
2 Marsham Street
London SW1P 3EB

Dear Patrick,

PRIVATE SECTOR HOUSING IMPROVEMENTS POLICY

Thank you for copying to me your letter of 2 April on this subject to Willie Whitelaw.

2 I am content with the revised draft Green Paper enclosed with your letter.

3 I am copying this letter to the Prime Minister, Willie Whitelaw, members of H Committee, David Young, John Gummer and to Sir Robert Armstrong.

Yours ever
Norman

NORMAN TEBBIT

JH1CGT

991-1

Housing: Policy Pt 5

25 APR 1983

Prime Minister (2)
You could mention X at Cabinet on Thursday
AT 23/4

PRIME MINISTER

PRIVATE RENTED SECTOR

On February 28, when the Cabinet considered the list of Bills for inclusion in the 1985/6 Parliamentary timetable, you said in your summing-up that further discussion should take place on the possibility of deregulating the private rented sector without incurring any additional public expenditure costs.

The Cabinet invited Patrick Jenkin, Nicholas Edwards, Norman Fowler and Peter Rees to hold further consultations about the public costs of deregulating the private rented sector.

However, the four Ministers will only be able to fulfil their remit when the Cabinet has made its final decision on the future shape of housing benefit. The bigger the savings resulting from the housing benefit review, the smaller the initial public cost of deregulating private rents will be. On Thursday, the Cabinet will be considering the benefit reviews, including the HB review.

X We **recommend** that, if housing benefit is settled by the Cabinet on Thursday, you should remind DoE, Wales, DHSS and Treasury of the February 28 remit and ask them to report back in time for the meeting on May 9, which you will chair, to consider the review of housing policy recently carried out by an official group under Peter Gregson. If we leave the final decision on private renting any later than this, we shall miss the legislative slot for 1985/6, which might prevent us from putting the proposal into law before the next General Election.

Alan Walters (Flag A), Sam Brittan (Flag B) and The Economist (Flag C) strongly support our contention that deregulation will yield very large PSBR savings in the long term and that there will be savings - not costs - even in the short term. The Times (Flag D) adds its voice to the clamour for deregulation.

Patrick Jenkin's radical and exciting proposal to deregulate both rents and security of tenure for all new lettings in the private sector, leaving existing protected tenancies untouched, will help job mobility and should be seen as a vital part of our jobs strategy. DoE think there may be a small short-term cost, but they agree that the long-term PSBR savings will be substantial. The Financial Times has estimated that the net present value of deregulation of rents could be £5bn-9bn - a figure which could be larger still once the results of the housing benefit review are taken into account.

JOHN REDWOOD

CHRISTOPHER MONCKTON

23 April, 1985.

CONFIDENTIAL

A

PRIME MINISTER

PRIVATE RENTED SECTOR DEREGULATION

I have reviewed the new H Committee recommendation to Cabinet (27 February 1985). The decision to deregulate not only rents but also security of tenure is based both on sound reasoning and reasonable interpretation of the evidence.

In this decision both H and Cabinet apparently were not misled by the absurd arguments, figures and omissions in the Annex to the Department of the Environment's memorandum. From my review of the data, it is clear that there is virtually certain to be a substantial reduction in future PSBR, although it is conceivable that the first year or two might see a very small increase - certainly well below any of the erroneous forecasts produced by DoE. But, much more important, as shown by Christopher Monckton's cost-benefit calculations, there would be very large net benefits from such a policy. This cost-benefit calculation is the only reliable criterion by which policy should be judged.

With the present housing benefit (HB) system, and with the new private rental arrangement, the proposal will involve a small (gross) increase in public spending in the short run. In the long run the multitude of benefits from reduction of public sector provision, increased mobility of labour, reduction of unemployment, increased productivity and new incentives will more than offset such initial effects on public expenditure.

Furthermore, this small and temporary gross increase in public expenditure - offset in the medium to long term by large PSBR savings, even on DoE's ungenerous assumptions - would be one of the few increases which can be justified because they are designed to make the market work and expand freedom of contract.

It would be inequitable and discriminatory to exclude new tenancies from housing benefit. And the new free-to-let

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initiative will fit neatly into the Housing Benefit Review's suggested policy of changing HB so that the present incentives for waste and wanton occupation are at least substantially modified. Also, the Review's proposed reductions in HB will, of course, reduce still further the already small short-term costs of deregulation. In the long run the new system of benefits should ensure that people would receive benefits only because, in spite of their best efforts, they remain poor - rather than because they choose to occupy valuable and expensive property. But providing a viable and healthy rental market is an important step on the way to this reform.

Finally, the H proposal for full deregulation of the private rented sector is consistent with the principle of morality that lies at the centre of your policy - people should be allowed to enter into mutually advantageous arrangements or contracts without state intervention to "protect" one party or to intimidate another. The "grandfather clause" protects existing tenants and prevents disruption. The new proposal has all the characteristics of a reasoned argument for freedom of contract by mutual consent.

AW

ALAN WALTERS

12 April 1985

CONFIDENTIAL

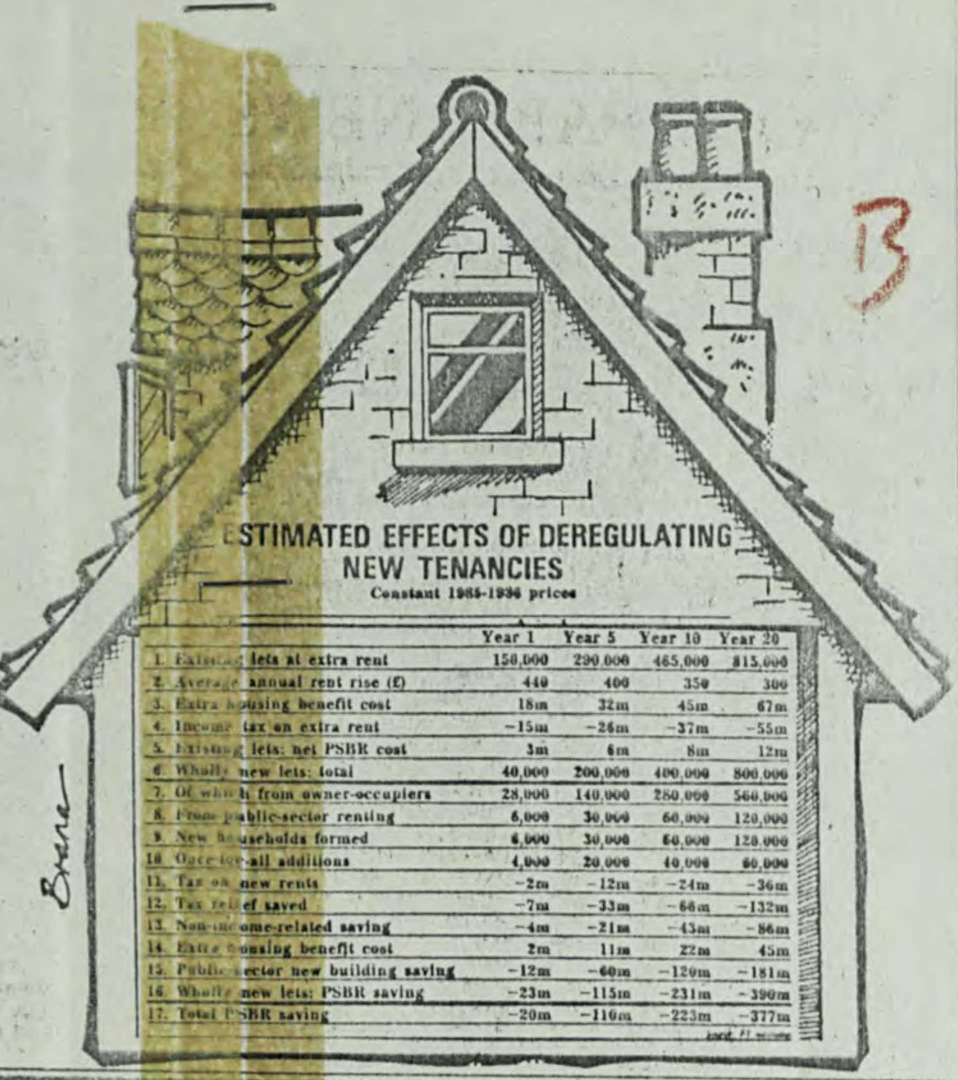
FT 15 APR 85

13

Economic Viewpoint

More homes to let: a test of political courage

By Samuel Brittan



ESTIMATED EFFECTS OF DEREGULATING NEW TENANCIES
Constant 1984-1985 prices

	Year 1	Year 5	Year 10	Year 20
1. Existing lets at extra rent	150,000	290,000	465,000	815,000
2. Average annual rent rise (£)	440	400	350	300
3. Extra housing benefit cost	18m	32m	45m	67m
4. Income tax on extra rent	−15m	−26m	−37m	−55m
5. Existing lets: net PSBR cost	3m	6m	8m	12m
6. Wholly new lets: total	40,000	200,000	400,000	800,000
7. Of which from owner-occupiers	28,000	140,000	280,000	560,000
8. From public-sector renting	6,000	30,000	60,000	120,000
9. New households formed	6,000	30,000	60,000	120,000
10. Once-for-all additions	4,000	20,000	40,000	60,000
11. Tax on new rents	−2m	−12m	−24m	−36m
12. Tax relief saved	−7m	−33m	−66m	−132m
13. Non-income-related saving	−4m	−21m	−43m	−86m
14. Extra housing benefit cost	2m	11m	22m	45m
15. Public-sector new building saving	−12m	−60m	−120m	−181m
16. Wholly new lets: PSBR saving	−23m	−115m	−231m	−390m
17. Total PSBR saving	−20m	−110m	−223m	−377m

THE ACID TEST of the Thatcher Government's sincerity in pursuing supply side policies to help people find their own jobs will be with us very shortly. It arises on an issue where, for once, free market economics coincides with the Government's own policy instincts; where the arguments for action are overwhelming, and the number of potential sufferers extremely small, if the reform is carried out competently.

The key is to be found in a motion on rent controls moved by Peter Hordern, a Conservative MP, on March 8 and supported in a personal capacity by Peter Lilley, the Chancellor's Parliamentary Private Secretary. Mr Hordern made clear that he expected protection for existing tenancies to continue and that he had in mind only decontrol of new tenancies, a road along which Germany and France have already travelled. It is with this possibility in mind that Ministers are engaged in a review of the private rented sector.

The withering of the private rented sector is second only to over-rigid labour markets as a cause of high unemployment. A young person moving from a high unemployment region like Liverpool to a more prosperous area may well not be able to afford to buy a new house, or may rightly hesitate to tie himself down straight away. He will have almost no chance of a council house in view of the long waiting lists.

The most natural form of accommodation for him would be private sector renting. Yet, because of rent controls private landlords do not have any incentive to provide such accommodation. On the contrary, the landlord has every inducement to sell rented property for owner occupation as soon as it becomes vacant. The stock of private rented dwellings is less than 2m and is shrinking by at least 70,000 a year.

Private sector lets have fallen from about 90 per cent of all accommodation in 1915, when rent control was imposed, to 45 per cent in 1950 and less than 10 per cent today. (In the U.S., it is still well over 30 per cent, in Switzerland over 60 per cent.

Because rents are so far below free market levels, other wastes proliferate. One example is under - occupation. When children grow up, parents find it does not pay to leave for smaller accommodation. Landlords, on the other hand, are tempted to leave rented property in disrepair and dilapidation.

Because there are now so few new lets more and more people now depend on bed and breakfast accommodation, or are placed in hostels of varying kinds, or simply sleep rough. All these abuses have increased manifold since the Labour Government atavistically extended control to furnished accommodation in 1974.

A graphic illustration of the effects of rent control was given in a recent letter to the Standard newspaper by a reader who would have been prepared to spend £5,000 to convert some rooms into a self-contained flat if he could have charged £30 per week. The interested tenants were a couple forced to live in bed and breakfast accommodation costing them £40 a week *each*. So they too would have gained. But as the landlord could not expect to recover more than £13 a week under a regulated "fair rent," the whole project had to be abandoned.

Some Government faint-hearts have put forward as a pretext for inaction largely imaginary PSBR costs of decontrol of new tenancies, arising from greater eligibility to housing benefit.

On any assumptions, rent decontrol is about the cheapest form of job creation imaginable. Treasury Ministers, who favour housing mobility, are emphatically not citing PSBR costs as an obstacle.

The real worry of Cabinet faint-hearts is, of course, different. It is the fear that the Conservatives will be associated once more with Rachmanism, harassment of tenants by landlords, and with bad memories of the last major decontrol Act of 1957. The big difference, however, is that while the 1957 Act applied to sitting tenants, new legislation today would apply only to new tenancies. It could and should also be accompanied by measures to give existing tenants more protection against harassment.

Deregulated new tenants would be protected from being thrown out on the street in the event of a failure to agree a new review by the Protection from Eviction Act of 1977. An additional safeguard might be for new tenancies to be fixed for agreed periods between landlord and tenants, instead of the indefinite arangements customary in this sector.

The other *immobiliste* argument is that landlords would hesitate to let for fears that a Labour Government would re-impose controls. It is best to concede that the main benefits would come after an election—although it would be wise to have any new Act in operation for a year before, just to disabuse the prophets of horror. It would also help if the SDP could avoid being as conservative as Labour and, however many disapproving noises it made, avoided outright repeal commitments and concentrated on the need for a more balanced overall housing policy. At the end of the day, however, the better any new legislation is seen to work, the less the chance of repeal by a new Parliament.

The accompanying table is an entirely unofficial attempt to estimate some of the principal consequences of deregulating new tenancies.

The starting point is the 1981 Labour Force survey showing some 300,000 private sector lets expiring each year. This figure needs to be reduced because of "loophole lets" (eg. to companies) or lets on which housing benefit is not claimed. The number of new tenancies at higher rent on which benefit would be paid has, therefore, been reduced to 150,000. But not a great deal hangs on this reduction, as the benefit cost would be substantially offset by income and corporation tax on the extra rents. After 20 years about half the existing controlled tenancies might be eliminated, and after 50 years the whole lot.

Officially registered rents in London averaged in 1984 just over £1,100 per annum for unfurnished dwellings and nearly £1,600 for furnished. Outside London they were £775 and £1,150 respectively. The initial rent rise on new tenancies could range from 50 to 100 per cent in London to near zero in some areas where market forces would not allow an increase. An average increase of £440 has been written in for the whole country. This figure (measured at constant prices) will clearly decline as supply increases.

The more interesting lower half of the table makes an estimate of the new lets, which greater freedom would stimulate. The total rented stock is assumed conservatively to rise by about 2 per cent per annum until it has increased by one-half. This gives 40,000 new lets per annum of which 70 per cent might be in place of owner occupation, 15 per cent in place of council tenancies, and 15 per cent arising from newly stimulated household formations. Another 4,000 new lets per annum might come from previously vacant properties, until 60,000 of these were absorbed.

The following lines show resulting Exchequer gains: from taxes on new rents, savings in mortgage interest relief and from savings in, for instance, improvement grants, which are less in the privately rented sector.

The final result is a modest PSBR saving of just over £20m in the first year, rising to over £200m per annum in the tenth year and to nearly £400m in the 20th. The real present value of the savings discounted over 50 years may be between £5bn and £9bn (at 2½ to 5 per cent real discount rates).

Whitehall's estimates probably differ from the table by showing a small PSBR cost in the early years. More pessimistic assumptions might be made, for instance, on initial rent increases, and on income tax gains. There might be political obstacles to reduced council house building, or to the changes in housing benefit recommended by the recent inquiry.

On the other hand, the table is itself very cautious on many key assumptions, above all the number of new lets once it is clear that deregulation is here to stay for some while.

Even on the most pessimistic assumptions, the initial PSBR cost in the early years couldd hardly be more than £30m to £40m per annum. This is 1 per cent, not of the PSBR, but of the estimated *error* in forecasting the PSBR. It would be recovered in increased tax revenues if the national income rose *once-for-all* by 0.03 per cent as a result of greater mobility and more jobs.

But even without counting on any GDP gain whatever, almost no adjustments could prevent the PSBR effect becoming favourable after a very few years and having a very large present value. Anyone who cites the PSBR effects as a reason for not deregulating new tenancies is thus using it as a cover for lack of political nerve.

A proper housing policy would not stop at private tenancies, but re-examine the future of council houses and of mortgage interest relief. The latter concession spills over into consumer credit and raises interest rates generally. But only the Grand Inquisitor would use the lack of progress on these other fronts to hold up a measure which could bring unemployed people to places where jobs are to be found.

Private rented housing

Yes, minister, it can be freed

Can the market for private rented housing be revived? The housing minister, Mr Ian Gow, would like to revive it: he told the Conservative backbench environment committee last year that he planned to remove all new lettings from restrictions on rents, security of tenure, and so on, imposed by successive rent acts. About time, one might think, from a free-market government. It would be popular in parliament: a private member's bill last June attracted support not only from Conservatives but also from the two alliance parties.

The private market could do with a boost. When rent control was introduced in 1915, private lettings covered about 90% of all houses and flats. By 1950 this proportion had fallen to 45%. Today it stands at only 11%—and a third of that is military- and company-owned property, let free to tenants. Britain now has a much smaller private rented sector than any other developed country (see chart).

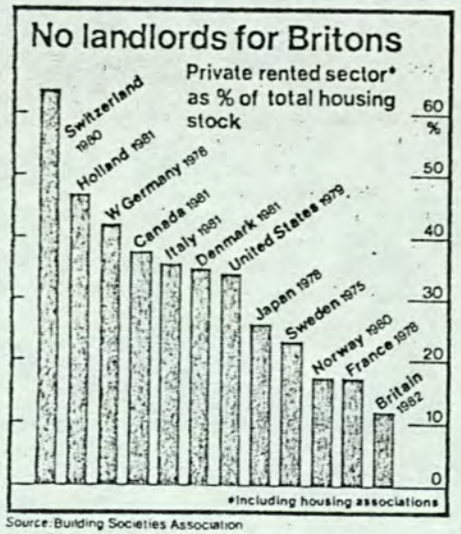
People in privately rented accommodation can move house quicker than owner-occupiers and council tenants. So the squeeze on private renting reduces labour mobility. An official study in Scotland, for example, reckoned that 48,000 fewer families there moved every year to take up new jobs than would have done if the bulk of rented accommodation had been in the private sector.

So what is stopping Mr Gow? When his civil servants looked at his plan, they pointed out that, because decontrol would raise rents, it would also mean the government having to pay more in housing benefits to poorer tenants. They told Mr Gow that the extra cost might be as much as £50m a year.

They were wrong. That calculation ignores several other effects of decontrolling rents. An alternative estimate would start with the fact that about 300,000 lettings are turned over every year. It might then assume that if these were decontrolled, their rents would rise by an average of £10 a week. The cost of housing benefits would indeed rise—by, say, 20% of the total rent increase, allowing for the likelihood that not everybody entitled to a rebate would claim it. The total cost to the government would therefore be £31.2m. But, against this, the treasury would get more taxes from landlords' higher incomes. Assuming an average tax take of 30%, the extra revenue would be £46.8m. So the treasury would scoop a net saving of £15.6m. Nor is that the end of the story:

- As tenancies end, many landlords are selling to owner-occupiers. If decontrolling rents were to encourage them not to, the government would save the tax relief on mortgage interest for the new owners.
- If the private rented market revived, the government would also save on non-income-related subsidies such as improvement grants. These average £150 for owner-occupied and council houses, only £30 a year for privately-rented housing—though that difference might vanish once landlords had reason to care.
- Improved labour mobility would probably reduce unemployment, saving the government unemployment pay and giving it more tax revenues.

Over to you, Mr Gow.



Source: Building Societies Association

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TIMES PAST THE TIMES

P.O. Box 7, 200 Gray's Inn Road, London WC1X 8EZ. Telephone: 01-837 1234

NO ROOMS TO LET

Today the House of Commons is asked to approve orders reducing the proportion of capital receipts which local housing authorities can recycle as improvement grants, repairs or new building. Much of the heat has gone out of the issue since Mr Gow announced concessions allowing councils to keep the proceeds of building houses for speedy sale. The 20 per cent proportion the Government is today asking for is too small – councils are being penalized for good housekeeping and enthusiastic pursuit of the Right to Buy policy. Yet it is only too small if capital receipts are being recycled to good purpose, and that must be defined as the maximum mobilization of private housing effort, especially for housing to rent.

The Government has been slow to apply its radical edge to the heart of Britain's housing problem. Peter Rachman, a name from the 1960s, still hangs over Conservative housing policy, a curse on all landlords and an excuse for inaction on the supply side of private accommodation for rent. What else but a 20-year old guilty conscience has prevented ministers – a Cabinet committed, at the least, to a rigorous examination of the welfare state – from thinking about dismantling the apparatus of rent control and tenancy restriction? Ministers say, diffidently, "no private company in its right mind would invest in building accommodation to rent" but in five years they do practically nothing. Now the housing lobbies, the bishops and the Royal Family rumble about an urban housing crisis; the homelessness figures rise and there are vivid case histories to match them. In response the Government is seemingly afraid to point to possible solutions in the private rented sector, to expound the role that landlords, small and large, might have in easing supply. At times the build-more-council-houses brigade is left in possession of the field while ministers entrench behind the strong (if unimaginatively built) walls of fiscal imperative.

The long and short of current housing policy is the extension of owner occupation. Here is an objective which matches a deeply-held popular ambition. Yet however stout, it cannot stand alone. The reality for the forseeable future is owner occupation for the many, public housing for a substantial minority, the two tenures buttressed each in its own way with subsidy (the great machine of housing benefit on one side, £3.5 billion worth of mortgage tax relief on the other) and restrictive practice.

This cannot be the full housing profile of a nation on the move, one responding to economic change, an occupationally mobile if less comfortable nation. A pool of rented housing is needed, easy to enter, easy to leave, housing of a type the private sector alone (a sector which includes charities, building societies and housing associations as well as rental firms and small landlords) can provide. To expand that pool by means both of de-regulation and financial incentives ought to be a government priority.

A programme to revive private rental housing in Britain starts at the centre with the Rents Acts, with fiscal discrimination against landlords and with Treasury rules about the way the Housing Corporation is prevented from levering building society and other private sector money into building for rent. At the heart of such a programme are the local authorities – some of which are shining examples of how, for example in the provision of rental accommodation for the elderly, private developers can be coaxed into innovative schemes. It is the local authorities which have sooner or later to accept that homelessness and under-provision can be met outside the ambit of the town halls and their authoritarian waiting lists and allocation points. Rachman remains an emotive word. But the real scandal of this decade will be if anachronistic attitudes delay or thwart private investment in our stock of housing for rent.

D

Prime Minister (1) Agree Mr Jenkin be asked to look again at this in 6 months time when future course of local government finance is a bit clearer?

AT 24/4

Yes mt

PRIME MINISTER 23 April 1985

LARGE SCALE HOUSEHOLD SURVEY

The message of Patrick Jenkin's minute and appendices is that:

1. If no new survey is conducted, all the measures of local authority needs will remain up-to-date except those that are covered by the 10-yearly census. The idea of the household survey is to plug the 10 year gap between one census and the next, as was done by a similar survey between the 1971 and 1981 censuses.

2. The next census will not be conducted until 1991, and will not affect grant settlements until 1993-4; whereas, if a survey is conducted, it will have produced results by Spring 1987 - in time to affect the 1988-9 grant settlement.

4. The survey might mean that, in each of the five years between 1988-9 and 1993-4, a total of roughly £150 million extra is given to some authorities, and £150 million less to other authorities, than would otherwise be the case; (£150 million = about 2% of block grant).

We continue to believe that the survey is unnecessary, and indeed unwise, because:

a. the present assessment of needs is a complicated farce: but it is still the legal basis of Minister's actions and cannot therefore be totally neglected. a new survey will merely serve to legitimise it;

b. by 1987, the government should be on the eve of the new, reformed system of local finance; this should involve a far simpler needs assessment, eliminating the demand for sophisticated analysis of minutiae: the data in question should therefore be unnecessary within one or two years of the survey's completion;

c. conducting an 'accurate' survey will reinforce DoE's tendency to keep any new system as complicated as possible -- a sure route to disaster.

We therefore recommend that the survey should be quietly postponed, at least until the shape of the new finance system and its data requirements are clear.

Oliver Letwin

OLIVER LETWIN

B/P with PM response CCJ

Prime Minister

LARGE SCALE HOUSEHOLD SURVEY

1. We discussed my proposals for a large scale survey in 1986 to provide data for RSG, inner city and housing policies, and I said that I would examine urgently whether there are any existing sources that could supply what we want without the need for a fresh survey.

2. I have now looked into this. I attach a note to show (eg in Appendix A) that we already make very extensive use of administrative data in our assessments of local authorities' needs (their GREs). For example we use DES annual counts of pupils, DEm and DHSS counts of persons in receipt of unemployment benefit and supplementary benefit, and OPCS mid-year estimates of population (which in turn take account for example of changes to the electoral register). By using such sources we update annually the indicators for over 80 per cent of the total value of GRE's. So to that extent, we are already doing what you seek.

3. But as the local authorities are quick to point out - and I have a statutory obligation to consult them - these sources do not reflect at all accurately the numbers in some groups which create major demands on them, eg the elderly living alone, children in poor housing and ethnic minorities. Statistics on these and other groups - which are available only from a census or large survey - are used to distribute around £900m of education GRE, most of the £2300m personal social services GRE and the £200m of passenger transport revenue support GRE. To illustrate the importance of such variables, details are given in Appendix B to the note of the differences which would occur in 1985/86 if these sums were allocated entirely according to the numbers in the total or school population of relevant ages. Roughly £450m would be transferred, mainly away from inner cities, with a very marked impact on

some individual authorities. Greater reliance on social security and unemployment benefit statistics would reduce the impact to some extent but it is clear eg from para 9 and Appendix C to the Note that these could not substitute for the much more appropriate Census or survey results. The alternative, without a survey to up-date the Census figures, is to continue to base our assessment of needs on 1981 figures in each RSG settlement up to and including the 1992/93 Settlement. Appendix D to the Note gives an illustration of how GRE's can be affected by the use of out-dated information.

4. As suggested at the Chequers presentation, any reform of local government finance will still require distribution of grant on the basis of needs. This could only be based on the indicators we use at present (paragraph 13 of the attached paper). If anything, the kind of package we discussed at Chequers would make it even more important than now that we adequately reflect differences in the individual circumstances of local authorities. We shall want to do this in a radically simpler way; but it will still remain crucial to use factors which reflect economic and social deprivation. In the absence of the survey, we would have to run for the first few years of any new system using many 1981 indicators of relative need. This would discredit the reform in the eyes of local government.

5. For our inner city policies Census statistics are major indicators of relative social and environmental problems. They are used to inform our decisions on which authorities should be designated under the Inner Urban Areas Act, and on the allocation of resources between them. As for our work on RSG, administrative sources do provide some useful statistics for inner cities policy work, but no sources exist to update or replace the Census indicators.

6. The Survey would also provide information needed for our housing policies. At the national level there are sources that we can and do use to monitor changes. But national figures can conceal as much as they reveal. For example the national balance of households and dwellings conceals areas of acute stress offset by areas of relative plenty.

7. The Government was critized by the Environment Committee in 1981 for having in the field of housing "as a matter of policy, deprived itself of information which is necessary for sound decisions to be taken". Similar criticisms may be made if housing policy decisions towards the end of the decade have to be based extensively on data from the 1981 Census.

8. I have satisfied myself that my officials are making full use of statistics available from administrative and other sources; there remains a core of key indicators of needs that can only be updated by a new survey. There will be a major weakness in our policies if we decide not to hold a survey. Such a decision will undoubtedly be exploited by the critics of the local government finance reforms on which we are now working in exploiting it very effectively. The cost of the survey - around £15m - is, I am convinced, fully justified.

9. Copies of this minute go the the Secretary of State for Employment, the Chief Secretary, Sir Robert Armstrong and Sir John Boreham.

PJ

PATRICK JENKIN

22 April 1985

Indicators used in Grant Related Assessment Calculations

Indicator	Source	Update
A. Persons		
Persons by age groups	OPCS	annual
Pupils/students	DES	annual
Commuters	Census	decennial
Overnight visitors	English Tourist Board	annual
B. Physical features		
Area	Ordnance Survey	annual
Sparsity	derived	annual
Density	derived	annual
Roadlengths	DTP	annual
Vehicle Kilometres	DTP	annual
Days of snow/frost	Met, office	annual
Numbers of properties	IR	annual
Floorspace	IR/DOE	annual
Building regulation applications	CIPFA	annual
Planning applications	DOE	annual
Protected coastline	DOE	ad hoc
C. Social and environmental problems		
Birthplace	Census	decennial
Lacking amenities	Census	decennial
Overcrowding	Census	decennial
Lone parent families	Census	decennial
Large families	Census	decennial
Socio-economic group	Census	decennial
Economic activity	Census	decennial
Shared accommodation	Census	decennial
Privately renting	Census	decennial
Living alone	Census	decennial
Car ownership	Census	decennial
Population change	OPCS	annual
Unemployment	DE	annual
Supplementary Benefit	DHSS	annual
Low income	IR	annual
Income from residential care	DHSS	annual
D. Special requirements of particular services		
Crime	HO	annual
Numbers of fires	HO	annual
Area of high fire risk	CIPFA	annual
Student awards, education pools	DES	annual
Housing benefits	DHSS	annual
Land Drainage expenditure	DOE	annual

Indicator	Source	Update
Education debt charges	DES	annual
Passenger transport debt charges	DOE	annual
Housing Revenue Account deficit	DOE	annual
Number of deaths	OPCS	annual
Capital	DOE	annual
Passenger train miles	British Rail	annual

E. Costs of providing services

Higher costs in the London area	DE	annual
Special costs in the Isles of Scilly	DOE	annual

Appendix B

EFFECTS OF USING POPULATION COUNTS IN PLACE OF SOCIAL AND ENVIRONMENTAL INDICATORS

1. The table attached shows the effects on 1985/86 GRE allocations.

2. Column 1 shows the difference between notional GRE's based solely on client numbers (eg the numbers of primary school pupils in the case of primary education, the population aged 65 and over for social services for the elderly, etc) and the actual 1985/86 GRE's.

3. The amounts redistributed total £435m (ie the sum of the gains to authorities or the sum of the losses in column 1). Column 2 shows the actual 1985/86 GRE's and column 3 the effect of dropping Census data in percentage terms. Only figures for the major authorities are shown.

Effects of excluding Census variables in GRE assessments

TOTALS TOTALS

	Net effect of dropping census data	1985/86 Settlement GRE	Effect as percentage
SHIRE COUNTIES	£m	£m	%
District Councils	5.222	1,462.368	.4%
County Councils	344.860	10,442.375	3.3%
TOTAL	350.082	11,904.743	2.9%
METROPOLITAN COUNTIES			
District Councils	-105.105	4,186.852	-2.5%
County Councils	-45.619	1,185.457	-3.8%
TOTAL	-150.724	5,372.309	-2.8%
GREATER LONDON			
City of London	.077	16.596	.5%
Inner Boroughs	-131.621	729.472	-18.0%
Outer Boroughs	-31.270	1,708.042	-1.8%
I L E A	-36.345	554.805	-6.6%
G L C (exc ILEA)	-	548.517	-
Metropolitan Police	-	384.948	-
Inner London Total	-167.889	1,300.873	-12.9%
London Boroughs&City	-162.814	2,454.110	-6.6%
ILEA+GLC+Met.Pol.+LRT	-36.345	1,488.270	-2.4%
TOTAL	-199.159	3,942.379	-5.1%
METROPOLITAN & LONDON			
TOTAL	-349.883	9,314.689	-3.8%
ISLES OF SCILLY	-.199	1.352	-14.7%
England Total	.000	21,220.784	.0%

AUTHOR:

	Net effect of dropping census data	1985/86 Settlement GRE	Effect as percentage
SHIRE COUNTIES			
Avon	11.025	323.856	3.4%
Bedfordshire	2.579	195.517	1.3%
Berkshire	9.887	254.795	3.9%
Buckinghamshire	11.482	223.084	5.1%
Cambridgeshire	6.781	221.137	3.1%
Cheshire	14.749	350.430	4.2%
Cleveland	-6.259	242.922	-2.6%
Cornwall	5.687	161.040	3.5%
Cumbria	7.823	176.960	4.4%
Derbyshire	7.411	332.985	2.2%
Devon	11.599	347.778	3.3%
Dorset	11.079	204.115	5.4%
Durham	2.520	218.270	1.2%
East Sussex	.330	224.258	.1%
Essex	30.292	524.005	5.8%
Gloucestershire	7.865	178.140	4.4%
Hampshire	23.965	528.974	4.5%
Hereford and Worcester	10.499	235.125	4.5%
Hertfordshire	22.540	340.241	6.6%
Humberside	-2.518	339.732	-.7%
Isle of Wight	1.453	44.046	3.3%
Kent	19.409	538.693	3.6%
Lancashire	-5.402	532.058	-1.0%
Leicestershire	2.143	329.488	.7%
Lincolnshire	5.751	208.529	2.8%
Norfolk	8.945	251.735	3.6%
Northamptonshire	2.818	210.270	1.3%
Northumberland	6.122	110.527	5.5%
North Yorkshire	12.367	242.420	5.1%
Nottinghamshire	.174	379.755	.0%
Oxfordshire	9.147	179.022	5.1%
Shropshire	4.794	146.908	3.3%
Somerset	7.811	156.906	5.0%
Staffordshire	13.457	375.254	3.6%
Suffolk	9.107	209.919	4.3%
Surrey	28.576	319.717	8.9%
Warwickshire	7.001	169.345	4.1%
West Sussex	14.058	222.837	6.3%
Wiltshire	7.794	191.584	4.1%

AUTHORI

	Net effect of dropping census data	1985/86 Settlement GRE	Effect as percentage
GREATER LONDON			
City of London	.077	16.596	.5%
Camden	-10.249	66.934	-15.3%
Greenwich	-4.091	43.104	-9.5%
Hackney	-15.950	66.864	-23.9%
Hammersmith and Fulham	-11.251	52.579	-21.4%
Islington	-10.550	64.357	-16.4%
Kensington and Chelsea	-6.548	39.410	-16.6%
Lambeth	-19.560	80.583	-24.3%
Lewisham	-8.057	59.120	-13.6%
Southwark	-12.580	80.300	-15.7%
Tower Hamlets	-9.935	43.426	-22.9%
Wandsworth	-13.059	68.742	-19.0%
Westminster	-9.790	64.052	-15.3%
Barking and Dagenham	.499	55.437	.9%
Barnet	.523	99.996	.5%
Bexley	5.346	78.714	6.8%
Brent	-13.114	125.653	-10.4%
Bromley	4.766	97.233	4.9%
Croydon	-1.371	117.634	-1.2%
Ealing	-9.376	116.723	-8.0%
Enfield	.758	95.457	.8%
Haringey	-13.565	101.270	-13.4%
Harrow	3.018	70.931	4.3%
Havering	5.709	83.551	6.8%
Hillingdon	3.929	83.293	4.7%
Hounslow	-2.229	79.690	-2.8%
Kingston-upon-Thames	1.407	45.746	3.1%
Merton	-.567	61.773	-.9%
Newham	-14.390	114.490	-12.6%
Redbridge	1.937	79.230	2.4%
Richmond-upon-Thames	.152	50.261	.3%
Sutton	2.733	57.606	4.7%
Waltham Forest	-7.435	93.356	-8.0%
GLC	-	548.517	-
ILEA	-36.345	554.805	-6.6%
Met.Police	-	384.948	-

AUTHORI

	Net effect of dropping census data	1985/86 Settlement GRE	Effect as percentage
GREATER MANCHESTER			
Bolton	-3.186	98.646	-3.2%
Bury	1.855	58.060	3.2%
Manchester	-23.116	213.935	-10.8%
Oldham	-4.332	88.780	-4.9%
Rochdale	-3.614	80.389	-4.5%
Salford	-4.087	95.390	-4.3%
Stockport	4.278	94.225	4.5%
Tameside	-1.026	77.866	-1.3%
Trafford	.959	75.203	1.3%
Wigan	4.293	106.340	4.0%
MERSEYSIDE			
Knowsley	-4.199	68.496	-6.1%
Liverpool	-13.853	217.111	-6.4%
St Helens	1.630	68.175	2.4%
Sefton	3.146	97.925	3.2%
Wirral	1.428	119.363	1.2%
SOUTH YORKSHIRE			
Barnsley	2.821	74.374	3.8%
Doncaster	-.217	101.291	-.2%
Rotherham	2.373	88.062	2.7%
Sheffield	-1.249	187.091	-.7%
TYNE AND WEAR			
Gateshead	.532	71.554	.7%
Newcastle upon Tyne	-2.018	102.672	-2.0%
North Tyneside	1.044	66.538	1.6%
South Tyneside	-.634	57.925	-1.1%
Sunderland	1.547	105.497	1.5%
WEST MIDLANDS			
Birmingham	-39.694	420.497	-9.4%
Coventry	-5.228	117.884	-4.4%
Dudley	5.814	98.348	5.9%
Sandwell	-6.049	119.446	-5.1%
Solihull	3.190	68.476	4.7%
Walsall	-.685	100.182	-.7%
Wolverhampton	-7.482	105.490	-7.1%
WEST YORKSHIRE			
Bradford	-13.694	185.494	-7.4%
Calderdale	-1.786	69.161	-2.6%
Kirklees	-5.096	139.321	-3.7%
Leeds	-1.850	244.449	-.8%
Wakefield	3.081	103.195	3.0%

AUTHORI

	Net effect of dropping census data	1985/86 Settlement GRE	Effect as percentage
METROPOLITAN COUNTIES			
Greater Manchester	-8.918	276.644	-3.2%
Merseyside	-9.990	175.141	-5.7%
South Yorkshire	-2.222	121.749	-1.8%
Tyne and Wear	-8.263	140.876	-5.9%
West Midlands	-14.222	270.467	-5.3%
West Yorkshire	-2.003	200.581	-1.0%
ALL-PURPOSE AUTHORITIES			
Isles of Scilly	-.199	1.352	-14.7%

Effects of distributing Additional Education Needs on

Supplementary Benefit data alone

1. For 1985/86, £900m is distributed on Additional Education Needs. The table attached shows the 1985/86 allocations (using the 1981 Census indicators and Supplementary Benefit data) and what authorities would have received had it been distributed solely on the basis of Supplementary Benefit data.

2. Overall £93m would have been over-allocated to some authorities in 1985/86 if Supplementary Benefit data alone had been used and the same amount under allocated to other authorities.

3. Decreases in GRE allocations by using Supplementary Benefit data alone would be particularly large for most London boroughs whereas the majority of metropolitan districts would gain. The pattern in the shire counties would be variable - e.g. Surrey would lose half of its allocation whereas Cleveland would gain substantially.

4. Further, the information on Supplementary Benefit is very volatile from year to year. As such, an allocation of Additional Education Needs using Supplementary Benefit data alone would result in wide fluctuations in many authorities' GRE allocations from year to year.

.FILE A. Effects of distributing Additional Education Needs on

RESULT OF [illegible]CAT PAGE 1 Supplementary Benefit data alone

ACCT	SHORTNAME	AENSCALE £m	SBSCALE £m	DIFF £m	PCDIFF %
404	Avon	13.132	14.473	1.341	10.2
405	Beds	11.855	8.883	-2.972	-25.1
406	Berks	12.739	8.104	-4.635	-36.4
407	Bucks	9.755	7.183	-2.572	-26.4
408	Cambs	10.025	8.357	-1.668	-16.6
409	Cheshire	15.012	17.014	2.002	13.3
410	Cleveland	14.232	22.607	8.375	58.8
411	Cornwall	5.951	6.480	0.529	8.9
412	Cumbria	6.575	6.390	-0.185	-2.8
413	Derbys	15.882	15.025	-0.857	-5.4
414	Devon	12.281	14.341	2.060	16.8
415	Dorset	7.176	6.526	-0.650	-9.1
416	Durham	10.698	15.702	5.004	46.8
417	E Sussex	8.213	8.084	-0.129	-1.6
418	Essex	20.748	23.073	2.325	11.2
419	Gloucs	7.445	6.658	-0.787	-10.6
420	Hants	21.707	19.194	-2.513	-11.6
421	Hereford&Wrcs	9.834	12.249	2.415	24.6
422	Herts	13.391	9.909	-3.482	-26.0
423	Humberside	16.923	21.725	4.802	28.4
424	I of Wight	1.494	1.878	0.384	25.7
425	Kent	23.127	22.475	-0.652	-2.8
426	Lancs	29.517	29.345	-0.172	-0.6
427	Leics	19.576	15.212	-4.364	-22.3
428	Lincolns	8.717	8.711	-0.006	-0.1
429	Norfolk	9.763	10.473	0.710	7.3
430	Northants	10.075	10.031	-0.044	-0.4
431	Northumberl	3.818	4.007	0.189	5.0
432	N Yorkshire	8.222	7.021	-1.201	-14.6
433	Notts	19.535	21.045	1.510	7.7
434	Oxfords	7.459	5.583	-1.876	-25.2
435	Shropshire	6.917	9.061	2.144	31.0
436	Somerset	5.571	4.942	-0.629	-11.3
437	Staffs	16.247	17.730	1.483	9.1
438	Suffolk	8.278	7.180	-1.098	-13.3
439	Surrey	10.813	5.684	-5.129	-47.4
440	Warwicks	8.054	7.378	-0.676	-8.4
441	W Sussex	7.849	6.091	-1.758	-22.4
442	Wilts	8.539	6.194	-2.345	-27.5
403	I of Scilly	0.038	0.038	0.	0.
334	Bolton	7.000	6.843	-0.157	-2.2
335	Bury	2.963	3.335	0.372	12.6
336	Manchester	14.936	19.279	4.343	29.1
337	Oldham	6.179	6.977	0.798	12.9
338	Rochdale	5.771	6.327	0.556	9.6
339	Salford	5.483	6.594	1.111	20.3
340	Stockport	4.039	4.980	0.941	23.3
341	Tameside	4.596	5.110	0.514	11.2
342	Trafford	3.947	4.383	0.436	11.0
343	Wigan	5.471	7.111	1.640	30.0
344	Knowsley	5.601	10.708	5.107	91.2
345	Liverpool	13.476	22.652	9.176	68.1
346	St Helens	3.575	5.493	1.918	53.7
347	Sefton	4.939	7.396	2.457	49.7
348	Wirral	6.512	10.474	3.962	60.8
349	Barnsley	3.834	3.990	0.156	4.1
350	Doncaster	5.746	6.981	1.235	21.5
351	Rotherham	5.091	6.318	1.227	24.1

FILE A

RESULT OF [illegible]CAT PAGE 2

ACCT	SHORTNAME	AENSCALE	SBSCALE	DIFF	PCDIFF
352	Sheffield	10.559	11.982	1.423	13.5
353	Gateshead	3.867	6.114	2.247	58.1
354	Newcastle	5.284	8.426	3.142	59.5
355	N Tyneside	3.072	4.852	1.780	57.9
356	S Tyneside	3.025	4.822	1.797	59.4
357	Sunderland	6.060	10.062	4.002	66.0
358	Birmingham	41.811	38.919	-2.892	-6.9
359	Coventry	9.677	9.840	0.163	1.7
360	Dudley	5.603	6.764	1.161	20.7
361	Sandwell	11.066	9.749	-1.317	-11.9
362	Solihull	3.403	4.180	0.777	22.8
363	Walsall	7.918	9.901	1.983	25.0
364	Wolverhampt	10.493	9.243	-1.250	-11.9
365	Bradford	17.768	17.765	-0.003	0.
366	Calderdale	4.607	4.637	0.030	0.7
367	Kirklees	11.276	8.783	-2.493	-22.1
368	Leeds	15.000	17.183	2.183	14.6
369	Wakefield	5.501	6.728	1.227	22.3
383	Barking	3.099	3.124	0.025	0.8
384	Barnet	6.149	3.226	-2.923	-47.5
385	Bexley	3.174	2.757	-0.417	-13.1
386	Brent	10.561	4.763	-5.798	-54.9
387	Bromley	3.553	3.057	-0.496	-14.0
388	Croydon	6.745	3.684	-3.061	-45.4
389	Ealing	10.384	5.036	-5.348	-51.5
390	Enfield	6.336	4.382	-1.954	-30.8
391	Haringey	8.058	5.714	-2.344	-29.1
392	Harrow	3.819	1.305	-2.514	-65.8
393	Havering	3.182	3.279	0.097	3.0
394	Hillingdon	3.760	2.558	-1.202	-32.0
395	Hounslow	5.492	2.814	-2.678	-48.8
396	Kingston	1.790	1.166	-0.624	-34.9
397	Merton	3.043	1.658	-1.385	-45.5
398	Newham	10.315	7.065	-3.250	-31.5
399	Redbridge	4.459	2.543	-1.916	-43.0
400	Richmond	1.873	1.077	-0.796	-42.5
401	Sutton	2.164	1.813	-0.351	-16.2
402	WalthamForest	7.239	5.121	-2.118	-29.3
458	ILEA	74.374	68.803	-5.571	-7.5

Appendix D

Redistribution Effects of the Additional Education Needs Ethnic Indicator

1. For 1985/86, £300m is distributed on the Additional Education Needs ethnic indicator. The table attached shows the GRE each authority would have received using alternatively 1971 and 1981 Census data on persons born in the New Commonwealth or Pakistan.

2. Overall, £18½m would have been over-allocated to some authorities in 1985/86 if the 1971 Census birthplace indicator had been retained and the same amount under-allocated to other authorities. For many individual authorities the differences are proportionately very large. In Harrow, the amount allocated using 1981 Census data is more than double that if 1971 Census information had been retained - a difference of over £2m. (Harrow's total GRE in 1985/86 is £71m).

SHORTNAME	ETH71CEN	ETH81CEN	DIFF	PCDIFF
Beds	5436	5567	131	2.4
Berks	6935	6395	-539	-7.8
Bucks	4120	3867	-252	-6.1
Cambs	2538	2660	122	4.8
Cheshire	1464	1368	-96	-6.6
Cleveland	1466	1427	-40	-2.7
Cornwall	986	795	-190	-19.3
Cumbria	478	437	-41	-8.6
Derbys	3164	3041	-123	-3.9
Devon	2671	2171	-500	-18.7
Dorset	1548	1257	-292	-18.9
Durham	571	626	55	9.6
E Sussex	2102	1868	-234	-11.1
Essex	4627	4378	-249	-5.4
Gloucs	1973	1588	-385	-19.5
Hants	8101	6244	-1858	-22.9
Hereford&Wrcs	1388	1356	-32	-2.3
Herts	4700	4655	-45	-1.0
Humberside	1323	1357	35	2.6
I of Wight	276	217	-60	-21.7
Kent	6910	5888	-1022	-14.8
Lancs	5984	6516	532	8.9
Leics	9494	11816	2322	24.5
Lincolns	1308	1131	-177	-13.5
Norfolk	1326	1281	-44	-3.3
Northants	2273	2622	348	15.3
Northumberl	260	288	29	11.2
N Yorkshire	1462	1147	-315	-21.5
Notts	4590	4009	-581	-12.7
Oxfords	2713	2199	-514	-18.9
Shropshire	1112	979	-133	-12.0
Somerset	989	832	-157	-15.9
Staffs	2224	2260	35	1.6
Suffolk	1816	1429	-388	-21.4
Surrey	4206	3874	-332	-7.9
Warwicks	2615	2171	-445	-17.0
W Sussex	2451	2219	-232	-9.5
Wilts	2697	2040	-657	-24.4
ILEA	42179	40316	-1863	-4.4

Redistribution Effects of the Additional Education Needs Ethnic Indicator..

SHORTNAME	ETH71CEN £ 000	ETH81CEN £ 000	DIFF £ 000	PCDIFF %
Bolton	2502	2475	-28	-1.1
Bury	465	525	60	12.9
Manchester	4132	4371	239	5.8
Oldham	1460	1739	280	19.2
Rochdale	1681	1617	-64	-3.8
Salford	477	456	-20	-4.2
Stockport	498	654	157	31.5
Tameside	1062	1074	12	1.1
Trafford	1041	1042	1	0.1
Wigan	213	288	75	35.2
Knowsley	165	156	-9	-5.5
Liverpool	1279	1191	-87	-6.8
St Helens	151	184	34	22.5
Sefton	409	346	-64	-15.6
Wirral	515	472	-44	-8.5
Barnsley	113	173	60	53.1
Doncaster	675	597	-78	-11.6
Rotherham	467	553	87	18.6
Sheffield	2255	2151	-104	-4.6
Gateshead	139	169	30	21.6
Newcastle	741	886	145	19.6
N Tyneside	198	221	23	11.6
S Tyneside	139	152	13	9.4
Sunderland	292	352	61	20.9
Birmingham	20362	20046	-315	-1.5
Coventry	4398	3945	-453	-10.3
Dudley	1567	1372	-195	-12.4
Sandwell	4763	4468	-296	-6.2
Solihull	551	514	-37	-6.7
Walsall	3078	2595	-484	-15.7
Wolverhampt	6293	4898	-1395	-22.2
Bradford	7712	7380	-332	-4.3
Calderdale	927	949	22	2.4
Kirklees	4854	4106	-748	-15.4
Leeds	4224	3771	-454	-10.7
Wakefield	491	542	51	10.4
Barking	733	816	83	11.3
Barnet	3654	4515	860	23.5
Bexley	1154	1308	154	13.3
Brent	9396	10738	1342	14.3
Bromley	1454	1333	-121	-8.3
Croydon	4425	4879	454	10.3
Ealing	8339	9022	683	8.2
Enfield	3093	4538	1445	46.7
Haringey	7588	6943	-645	-8.5
Harrow	2020	4109	2089	103.4
Havering	741	804	63	8.5
Hillingdon	1588	2091	503	31.7
Hounslow	3762	4649	887	23.6
Kingston	796	919	123	15.5
Merton	1853	2078	225	12.1
Newham	5592	8011	2419	43.3
Redbridge	1965	3145	1180	60.1
Richmond	822	780	-42	-5.1
Sutton	752	864	112	14.9
WalthamForest	3840	4675	835	21.7
I of Scilly	0	2	1	-
Avon	3664	3059	-605	-16.5

HOUSING : Policy : Pt 5.

22 NOV 1965

NBPM AT 19/4

ECAD

PRIVY COUNCIL OFFICE
WHITEHALL. LONDON SW1A 2AT

19 April 1985

Dear Patrick

PRIVATE SECTOR HOUSING IMPROVEMENT POLICY

Thank you for your letter of 2 April enclosing a revised draft of the Green Paper.

You will have seen that the Prime Minister is content, as is Peter Rees, subject to a drafting point. I understand that George Younger, Nicholas Edwards, Norman Tebbit and David Young have no objections, and you may now take it that, subject to Peter's comments, you have the approval of H Committee to proceed with publication. As you know it will be for QL to consider whether there can be a Bill next Session.

I am sending copies of this letter to the Prime Minister, members of H Committee, to the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Chancellor of the Duchy of Lancaster, the Minister without Portfolio, the Paymaster General and Sir Robert Armstrong.

Yours
John Wakeham

The Rt Hon Patrick Jenkin MP

Housing: Policy pt 5.

014/109

CONFIDENTIAL

CCPO

NDPM
AT 17/4

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

16 April 1985

Dear Secretary of State

PRIVATE SECTOR HOUSING IMPROVEMENT POLICY

Thank you for copying to me your letter of 2 April to Willie Whitelaw. I am content with your revised draft subject to one drafting amendment.

In paragraph 33 of the consultation paper, I do not think we should prejudge the issue of the use to which repayments from home improvement loans will be put. That is a matter for future public expenditure surveys. I should therefore like the fourth sentence of that paragraph to be redrafted to read as follows:-

> "Over the years, repayments of loans will reduce the cost to the taxpayer and ratepayer".

I agree that in the light of Christopher Monckton's advice to me of 13 March, paragraph 35 should not be included in the draft. Further work on this proposal can continue at official level.

I am copying this letter to the Prime Minister, Willie Whitelaw, members of H, Norman Tebbit, David Young, John Gummer and to Sir Robert Armstrong.

Yours sincerely

for PETER REES

CONFIDENTIAL

(Approved by the Chief Secretary)

Housing Pt 5
Policy

16 APR 1985

File

Nationwide Building Society

BACKGROUND BULLETIN

HOUSE PRICES OVER THE PAST THIRTY YEARS

April 1985

House Prices Over The Past 30 Years

Nationwide Building Society indices show that house prices have experienced more than a sixteen fold increase over the last thirty years. This increase is slightly more than the increase in average earnings over the same period and far in excess of the increase in retail prices.

House Prices

In the latter half of the 1950's house prices were relatively stable, increasing at just over 3% a year. During the 1960's the rate of house price increase rose to about 7% a year. Over the decade house prices doubled. During the 1970's the rate of change accelerated and fluctuated widely from year to year. In the three years from the end of 1970 to the end of 1973 house prices doubled with the rise in 1972 alone being over 40%. From 1974 to the end of 1977 the average annual rate of rise in house prices was about 8%. House price rises accelerated again in 1978 and 1979 averaging over 25% a year. Annual house price rises have continued to fluctuate during the 1980's though the annual fluctuations have been within narrower limits than during the 1970's.

Over the past 30 years, the prices of new properties and older properties have increased eighteen fold while modern properties have increased sixteen fold.

House Prices and Retail Prices

Since the end of 1954 house prices have increased almost twice as fast as the retail price index, though this masks the fact that during the period of rapid retail price inflation in the mid 1970's the increase in house prices was below the long term average (approximately 10% per annum) rise in house prices.

House Prices and Average Earnings

Over the whole of the last thirty years house prices and average earnings have risen by almost the same proportion. There appears to be a long term relationship between average earnings and average house prices. On an annual basis however, there have been significant differences in the rate of change of house prices and average earnings.

Real Personal Disposable Income

Real Personal Disposable Income (income after taxation and after the effects of inflation have been removed) has doubled over the last thirty years. Changes in real personal disposable income do not appear to have had a consistent effect on house prices year by year. However, in 1971-73 and 1978 when real personal disposable income increased at well above the thirty year average, house prices experienced their most rapid rate of increase.

House Price Earnings Ratio

The relationship of house prices to average earnings has averaged just over three to one during the last thirty years. The ratio rose to over four to one in 1973 at the end of the first house price boom of the 1970's. The lowest ratio of house prices to incomes recorded in the last thirty years was 2.86 in 1960.

Although house prices have risen dramatically over the last thirty years, (£1,990 at the end of 1954 compared with £32,810 at the end of 1984) the house price earnings ratio at the end of 1984 is virtually identical with that at the end of 1954.

House Prices, Retail Prices and Average Earnings Over the Past 30 Years

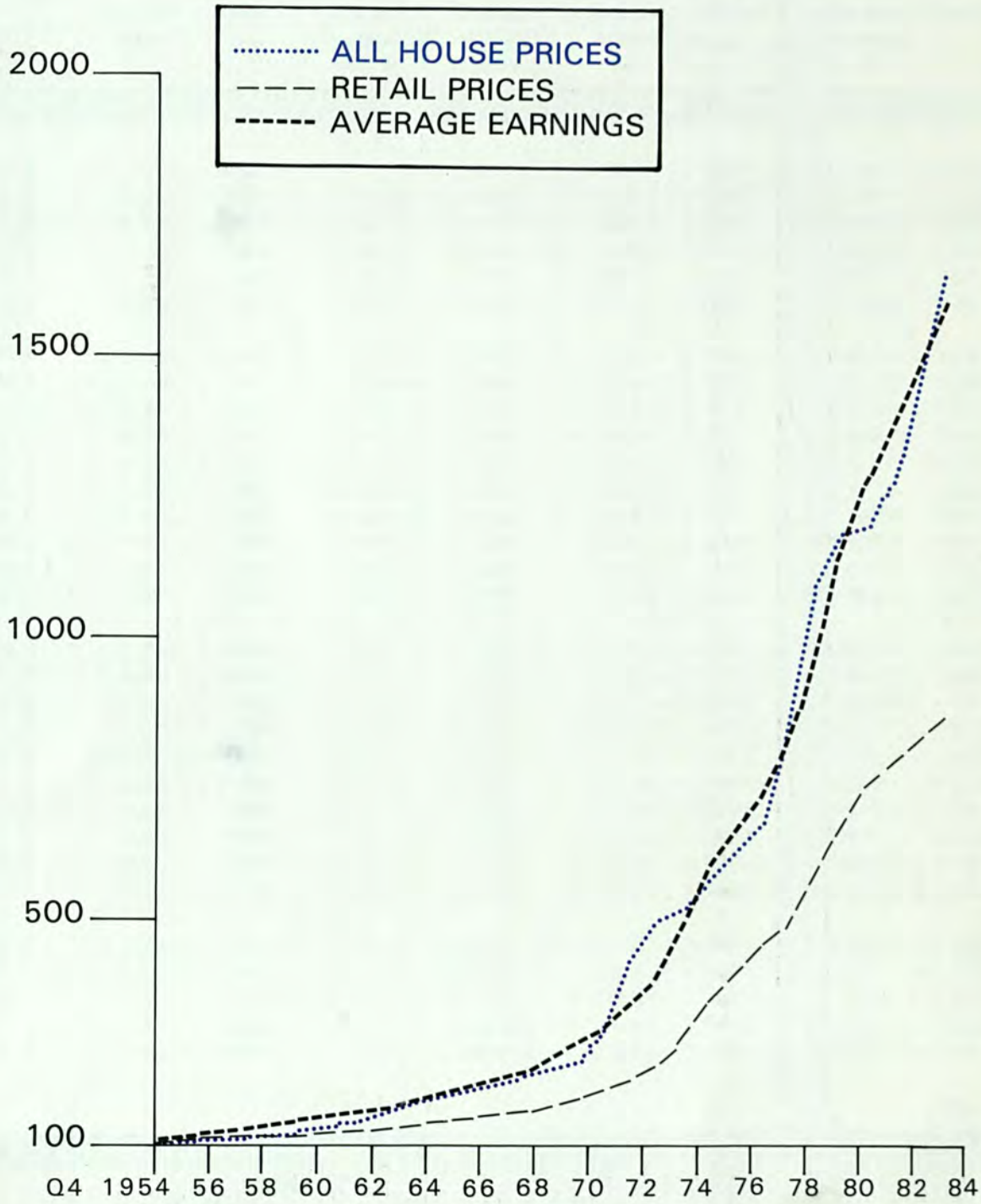
HOUSE PRICES AND HOUSE PRICE INDICES

4th Qtr	All Properties: Average Price £	All Properties: Index	All Properties: Annual Change %	New Properties: Average Price £	New Properties: Index	New Properties: Annual Change %	Modern Properties: Average Price £	Modern Properties: Index	Modern Properties: Annual Change %	Older Properties: Average Price £	Older Properties: Index	Older Properties: Annual Change %	Retail Price Index: Index	Retail Price Index: Annual Change %	Real Personal Disposable Income: Index (1954 = 100)	Real Personal Disposable Income: Annual Change %	Average Earnings All Occupations (Seasonally Adjusted): Index	Average Earnings All Occupations (Seasonally Adjusted): Annual Change %	House Price/ Earnings Ratio (Annualised)
1954	1,990	100	–	2,110	100	–	2,170	100	–	1,690	100	–	100	–	100	–	100	–	3.35
1955	2,080	105	+4.5	2,200	104	+4.3	2,270	105	+4.6	1,770	105	+4.7	104	+4.1	105	+4.7	109	+8.6	3.18
1956	2,150	108	+3.4	2,310	109	+5.0	2,350	108	+3.5	1,820	108	+2.8	107	+2.6	107	+2.6	115	+5.8	3.07
1957	2,180	110	+1.4	2,380	113	+3.0	2,360	109	+0.4	1,860	110	+2.2	114	+4.4	109	+1.6	122	+6.1	2.98
1958	2,220	112	+1.9	2,410	114	+1.3	2,400	111	+1.7	1,900	112	+2.2	116	+2.0	111	+1.5	124	+2.0	2.92
1959	2,330	117	+5.0	2,540	120	+5.4	2,510	116	+4.6	1,990	118	+4.7	116	–	116	+5.1	132	+6.3	2.87
1960	2,500	126	+7.3	2,740	130	+7.9	2,690	124	+7.2	2,150	127	+8.1	118	+1.8	124	+6.5	141	+6.6	2.86
1961	2,730	137	+9.2	2,950	140	+7.7	2,930	135	+8.9	2,360	140	+9.8	123	+4.3	129	+4.2	147	+4.5	2.95
1962	2,870	144	+5.1	3,130	148	+6.1	3,050	141	+4.1	2,500	148	+5.9	127	+2.6	130	+1.0	151	+2.3	3.05
1963	3,160	159	+10.1	3,300	156	+5.4	3,440	159	+12.8	2,740	162	+9.6	129	+2.1	137	+4.7	161	+6.9	3.16
1964	3,420	172	+8.2	3,570	169	+8.2	3,730	172	+8.4	2,940	174	+7.3	135	+4.5	142	+3.7	173	+7.5	3.21
1965	3,670	184	+7.3	3,830	182	+7.3	4,020	185	+7.8	3,150	186	+7.1	141	+4.5	145	+2.5	187	+7.7	3.24
1966	3,850	193	+4.9	4,080	193	+6.5	4,170	192	+3.7	3,310	196	+5.1	147	+3.8	148	+2.3	195	+4.4	3.20
1967	4,120	207	+7.0	4,300	204	+5.4	4,480	206	+7.4	3,570	211	+7.9	150	+2.1	151	+1.4	206	+5.7	3.26
1968	4,390	221	+6.6	4,620	219	+7.4	4,740	218	+5.8	3,820	226	+7.0	158	+5.6	153	+1.8	222	+8.1	3.25
1969	4,540	228	+5.5	4,760	226	+4.1	4,890	225	+5.7	3,990	236	+6.0	166	+5.2	155	+1.0	240	+8.1	3.17
1970	4,920	247	+6.3	5,120	243	+6.4	5,280	243	+5.4	4,360	258	+7.7	179	+7.7	161	+3.9	270	+12.2	3.02
1971	5,940	298	+20.7	6,190	293	+20.9	6,430	296	+21.8	5,210	308	+19.5	195	+9.2	163	+1.3	294	+8.8	3.13
1972	8,460	425	+42.4	9,020	427	+45.7	9,040	417	+40.6	7,460	441	+43.2	210	+7.7	177	+8.8	338	+15.2	3.80
1973	9,760	490	+15.4	10,080	478	+11.8	10,430	481	+15.4	8,770	519	+17.6	232	+10.3	189	+7.0	386	+14.0	4.18
1974	10,200	513	+4.5	10,570	501	+4.9	10,800	498	+3.6	9,320	551	+6.3	274	+18.2	188	−0.8	478	+23.9	3.81
1975	11,280	567	+10.6	11,950	566	+13.1	11,900	548	+10.2	10,210	604	+9.5	343	+25.3	188	–	579	+21.0	3.27
1976	12,200	613	+8.2	13,190	625	+10.4	12,810	590	+7.7	10,990	650	+7.6	395	+14.9	188	–	646	+11.7	3.10
1977	13,200	663	+8.2	14,630	693	+10.9	13,780	635	+7.6	11,790	698	+7.3	447	+13.1	185	−1.5	706	+9.3	3.07
1978	16,660	837	+26.2	18,250	865	+24.7	17,650	813	+28.1	14,850	879	+26.0	483	+8.1	199	+7.3	808	+14.4	3.21
1979	21,540	1,082	+29.3	23,420	1,110	+28.3	22,680	1,045	+28.5	19,670	1,164	+32.5	566	+17.3	210	+5.7	967	+19.7	3.58
1980	23,480	1,180	+9.0	26,790	1,270	+14.4	24,480	1,128	+7.9	21,440	1,268	+9.0	653	+15.3	212	+1.0	1,154	+19.2	3.48
1981	23,740	1,193	+1.1	28,360	1,344	+5.9	25,080	1,156	+2.5	21,320	1,262	−0.6	730	+11.9	208	−2.0	1,277	+10.9	3.19
1982	25,530	1,283	+7.5	30,230	1,432	+6.6	27,120	1,250	+8.1	23,130	1,369	+8.5	776	+6.2	209	+0.3	1,376	+7.8	3.02
1983	28,720	1,443	+12.5	33,850	1,604	+12.0	30,520	1,406	+12.5	25,930	1,534	+12.1	815	+5.1	213	+1.9	1,480	+7.6	3.12
1984	32,810	1,649	+14.2	37,440	1,774	+10.6	34,680	1,598	+13.6	29,930	1,771	+15.4	852	+4.6	210e	−1.4	1,590e	+7.4	3.34e

e – estimated

Sources:
Nationwide Building Society Mortgage Approvals
Department of Employment Gazette
Economic Trends

INDICES OF HOUSE PRICES, RETAIL PRICES AND AVERAGE EARNINGS 4TH QUARTER 1954 – 4TH QUARTER 1984



All enquiries concerning this bulletin should be made to:

Barry Bissett
Market Planning Division
Nationwide Building Society
New Oxford House
High Holborn
London WC1V 6PW

Tel: 01-242 8822 Ext. 2426

Or to the Press Office

Tel: 01-242 8822 Ext. 3456

Housing information and other details of the Society's products and services are available on Prestel 350242

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CC NO

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

11 April 1985

NBPM
MST 12/4

Dear Peter,

SURPLUS LAND AND EMPTY HOUSING

will request if required

You sent me a copy of your letter of 18 March to John Moore in which you refer to the difficulties that PSA is experiencing in disposing of derelict Government Oil Pipelines and Storage sites.

It is true that some disposals have been outstanding for a very long time. The problem is that these sites are often in an unsaleable condition. Money has to be spent to alleviate eyesores and remove pollution before there is any real prospect of attracting potential customers.

I know that your department has tried before to get funds, but has not been successful in securing Treasury approval. The policy which E(DL) has now endorsed is to get rid of surplus land promptly; but derelict sites will remain on our hands unless money is spent on making them capable of sale. While the PSA will do what it can within its resources, the key to the problem lies with your own department.

I am copying this letter to the recipients of yours.

Yours ever

Patrick

PATRICK JENKIN

CONFIDENTIAL

The Rt Hon Peter Walker MBE MP

HOUSING: Policy: Pt 5.

12 APR 1985

6

10 DOWNING STREET

From the Private Secretary

3 April 1985

The Prime Minister has now seen your Secretary of State's letter to the Lord President of the Council covering a revised draft of the Green Paper on home improvement policy. She was entirely content with the new draft.

Tim Flesher

Andrew Allberry Esq
Department of the Environment.

hle MASTER cc Subject MJ2AHF

10 DOWNING STREET

From the Private Secretary

2 April 1985

The Prime Minister had a word today with your Secretary of State about the proposed large scale household survey envisaged in his minute of 28 March.

The Prime Minister said that she shared Sir John Boreham's reservations about whether the survey would produce sufficient new information to justify the £15m cost. There were many other sources of information which were collected routinely and which did not seem to be fully utilised. Examples were school registrations; voter registration; Post Office records of pensioners; and DHSS records of other claimants.

Your Secretary of State said that his advice was that such figures did not produce sufficiently organised information to assist in assessing GREs. Indeed much of the information on which current GRE assessments were made was considerably out-of-date, relying as it did on the 1981 census. These assessments were becoming increasingly difficult to defend and DOE Ministers were receiving a regular stream of delegations from local authorities complaining that their assessment was out-of-date. He recognises Sir John Boreham's reservations but, in the end, it was DOE Ministers who were accountable to Parliament for the accuracy of the GRE system. Nevertheless, he would look once again at the range of information provided by other Departments as part of their routine collection of data to see if any could be deployed in GRE assessments. He was not however sanguine about the prospects.

The Prime Minister said that she was grateful for your Secretary of State's agreement to look at the problem once again: she was more optimistic about the possibilities. Nevertheless, she noted that your Secretary of State reserved the right to return to the issue if he remained of the view that a survey was still needed.

I am copying this to Richard Broadbent (Chief Secretary's Office) and Sir John Boreham. I am sending a copy to Judith Rutherford (Department of Employment) whose Secretary of State was present during the meeting and who

offered to consider if Department of Employment channels could be used to provide some of the information at which the proposed survey was aimed.

Tim Flesher

Andrew Allberry Esq
Department of the Environment.

PRIME MINISTER

Prime Minister: Patrick Jenkin has met your points: agree to approve new draft as Green Paper as proposed

"HOME IMPROVEMENT - A NEW APPROACH"

Following the meeting of Ministers in your room at the House on March 6, Patrick Jenkin and Nicholas Edwards have now produced a revised draft of the Green Paper on home improvement policy.

In the light of your point that the housing standards attracting public funds should not be too elaborate, the paper says that mandatory aid should go only to properties that are structurally dangerous, seriously damp, poorly lit, ill-ventilated or lacking water supply, kitchen, inside lavatory, bath/shower or drains.

The paper also proposes that the existing "10-point, 30-year" standard for discretionary assistance should be tightened. A new, six-point standard is recommended: fitness for human habitation; reasonable repair; hand-basin with hot and cold taps; sound wiring and lighting; adequate heating; 30-year useful life.

To improve targeting of aid and to save money, the paper proposes that assistance for both mandatory and discretionary works should be paid only to the poorest, on the basis of means-tests compatible with those for entitlement to housing benefits (the precise formula must await the outcome of the benefit reviews).

Grants would be paid to those qualifying for mandatory assistance. **Equity loans** would be paid, in place of the present grants, to those qualifying for discretionary assistance.

These changes reflect the conclusions of the meeting and we **recommend** that you should approve a Private Secretary's letter to Patrick Jenkin indicating that you are content with the draft.

CHRISTOPHER MONCKTON

CM.

2 April, 1985

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

- 2 APR 1985

Dear Willie,

PRIVATE SECTOR HOUSING IMPROVEMENT POLICY

You will recall that on 6 March the Prime Minister held a meeting to discuss this topic. Nicholas Edwards and I were asked to look further at the proposals in the light of that discussion, and to submit a revised draft of the Green Paper to H Committee colleagues.

I enclose a revised draft, which also takes account of the Chief Secretary's comments of 18 January. Significant changes are sidelined.

So far as the topics considered at the 6 March meeting are concerned I have taken the following action (the order follows that of the penultimate paragraph of Mr Turnbull's letter of 6 March):

(i) Work eligible for mandatory and discretionary assistance

I am proposing a modified standard of fitness for human habitation (see paragraphs 66 to 65 of the Green Paper and Annex II). I believe the simplest and most defensible course would be to offer mandatory help only towards works required to bring houses up to this standard. At present discretionary help is available to bring dwellings up to the 10 point/30 year standard. I suggest we replace this with a shorter and simpler '6 point standard' which would be a maximum (paragraph 7 of annex II to the Green Paper);

(ii) Grants and loans

The revised draft incorporates the proposals for equity-linked loans for discretionary help and grants where assistance is mandatory. The latter is, I believe, essential for properties in the very worst condition where urgent action is required. Local authorities would have to resort to widespread use of their powers of compulsion against owner-occupiers unless we offer encouragement in a form which will persuade most of them to take action voluntarily. I do not see any merit or advantage in further complicating the system by offering loans for mandatory work to some of those who pass the eligibility test. On the other hand I do not see any case for making help available - even for those in unfit houses - where owners fail that test;

(iii) The eligibility test

I have been asked to ensure that, so far as possible, the test which is used for these purposes is consistent with that to be used for Housing Benefit (though there will undoubtedly need to be some differences, to recognise that the objectives of the two systems are quite different). As this Green Paper needs to be published before the conclusions of the Review of Housing Benefit are announced, we cannot define the test apart from saying that it should be compatible with the test for housing benefit, and that we will settle the details later;

(iv) Publicly guaranteed loans

There is a reference to this in square brackets (para 35) but in the light of Christopher Monckton's advice to the Chief Secretary, dated 13 March, my clear preference would be not to include this paragraph.

I am copying this letter to the Prime Minister, Members of H Committee, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Minister without Portfolio, the Paymaster General and Sir Robert Armstrong.

I should be grateful for colleagues' comments as quickly as possible. We are increasingly being criticised for the long delay in making public our proposals; and I am keen to make progress so that we can be ready to legislate in 1985/6 if at all possible.

Yours ever

Patrick

PATRICK JENKIN

Foreign off.

The Rt Hon The Viscount Whitelaw CH MC

COPY 25 OF 25

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DRAFT GREEN PAPER: "HOME IMPROVEMENT - A NEW APPROACH"

INTRODUCTION

1. Since May 1979 the Government has introduced a range of new, radical housing policies centred on the encouragement of owner-occupation. 63% of households in England and Wales now own their own homes. A recent survey of non-owners found that among the 25-35 age group owner-occupation was the preferred tenure of 90% of those interviewed. Our housing is a national asset of the highest social and economic importance which will increasingly be in the hands of owner-occupiers. Home ownership offers opportunities for individuals to alter and improve their homes as they wish; they must also carry the primary responsibility for keeping their property in good repair.

2. This consultation document deals with the condition of the privately owned housing stock in England and Wales, both owner-occupied and tenanted, and with its maintenance, repair and improvement. The Government's proposals envisage that the building industry, the financial institutions and local authorities will all help individual householders to meet their responsibilities.

3. The Government has had the benefit of the views of the local authority associations and has taken into account representations from a wide range of bodies in carrying out its review. It would now welcome comments from these and other organisations on the proposals which are set out below. Comments should be sent to:

Room N7/09
Department of the Environment
2 Marsham Street
London SW1P 3EB

or to:

Housing C Division
Welsh Office
Cathays Park
Cardiff CF1 3NQ

by [21 June 1985].

THE CONDITION OF OUR HOUSING STOCK

4. There are 12½ million privately owned dwellings in England and 800,000 in Wales. The majority of householders are better housed than ever before. In 1971 as many as 1 in 8 houses lacked an inside WC; 1 in 10 had no bath. By 1981 the proportions had fallen to 1 in 33 and 1 in 40. Features which a few years ago were regarded as luxuries are now commonplace; 57% of homes today have central heating compared with 23% in 1971.

5. When the Government carried out a survey of the housing stock in England in 1981 it found that the total number of unsatisfactory[1] private sector houses had fallen substantially since 1971. Even so there were 3.5 million unsatisfactory dwellings: 0.9 million regarded as failing to meet the minimum standard of fitness for human habitation; 0.7 million which lacked one or more basic amenities; and nearly 2.3 million which needed repairs costing more than £2,500. In all more than one in four private sector homes were unsatisfactory. The 1981 Welsh House Condition Survey found 87,000 privately owned dwellings to be unfit; 74,000 to lack one or more basic amenities; and 230,000 which were in need of repairs costing over £2,500; a combined total of 250,000 dwellings, or over a quarter of the stock. In one vital area the position was getting worse: the number of dwellings needing major repairs had increased by over 20% in both England and Wales since the stock was last surveyed in 1976.

6. An important factor in the condition of the private housing stock is its age: 37% of such dwellings in England and 56% in Wales were built before 1919. There is a high correlation between age and unsatisfactory condition.

[1] unsatisfactory dwellings for this purpose are those which were unfit, lacked basic amenities or needed repairs costing over £2,500 at 1981 prices.

THE GOVERNMENT'S ACHIEVEMENTS

7. Since it came to office in 1979 the Government has given a high priority to the improvement and repair of private sector housing. It has launched a number of initiatives to encourage both the private and public sectors to make better use of available housing and resources. These have included important changes to the home improvement grant system. The Housing Act 1980 made repairs grants generally available for pre-1919 houses in need of major repair. Between 1975 and 1979 only 800 repairs grants were given in England. In the four years 1981 to 1984 260,000 such grants were paid. In Wales the corresponding figures were 500 repairs grants in 1975-79 and 43,000 in 1981-84.

8. For 1982-83 and 1983-84 special arrangements were introduced under which the maximum grant rate for repairs grants and for intermediate grants (towards the installation of basic amenities) was raised to 90% for all applicants. Local authorities were offered additional resources to enable them to increase their grant spending. As a result expenditure in England, which had been as little as £90m in 1978-79, rose to £425m in 1982-83 and £911m in 1983-84, when 250,000 grants were paid. In Wales, expenditure of £11m in 1978-79 rose to £43m in 1982-83 and £102m (33,000 grants) in 1983-84. Spendingin 1984-85 is estimated to have been £750m in England and £80m in Wales.

THE FUTURE

9. The primary responsibility for maintaining and improving private housing rests with the owners. Evidence from the 1981 English House Condition Survey, updated to take account of recent trends, suggests that, in addition to mortgages, rents, rates and other bills, the average household now spends £450 a year on improvement and repair work (including maintenance and decoration). For owner-occupiers, the figure is much higher - £620. In all, spending on such work by owner-occupiers and private tenants in England and Wales amounts to over £7½ billion a year. When investment by landlords and developers, and the money paid through grants, are added, the total spent on the maintenance, improvement and repair of private sector housing is about £9 billion.

10. However, there is no room for complacency. Apart from housing acquired under the Right to Buy, the average age of the private sector stock is increasing. Moreover, as the 1981 House Condition Surveys showed, much remedial work that should be done is not done because the householder does not appreciate the extent or seriousness of the disrepair or because he is deterred by the disruption that would be caused and the uncertainty of finding a reliable builder. Paragraphs 13 to 24 below discuss these problems further and how the Government proposes that they should be tackled.

11. In addition to the encouragement of timely private investment, intervention by the public sector is justified in some circumstances, in particular where:

a. households are living in unhealthy or unsafe conditions; or

b. financial help is necessary for those who would not otherwise be able to carry out necessary improvement and repair work to unsatisfactory dwellings; or

c. conditions across a whole area are so bad as to discourage individual owners from spending money on their homes.

12. Whenever the public sector does intervene it is essential that public money is spent in the most cost-effective way. Proposals for ensuring that help is available where people really need it are at paragraphs 25 to 45.

ENCOURAGING OWNERS TO HELP THEMSELVES

13. In general, owners are best placed to decide how much money to spend on their homes, and how it can best be used. But the 1981 English House Condition Survey showed that many people whose homes were in poor condition did not appreciate the extent of the faults nor the consequences of leaving them unremedied. Very few whose homes were judged by professional surveyors as unfit regarded their condition as "very bad"; most thought they were average or better than average.

14. Greater public awareness of the need for timely repairs - like replacing defective guttering and repointing brickwork - would have two benefits. It would:

i. save householders from greater expense in later years; and

ii. improve the condition of the housing stock.

The Government urges the building industry, for these reasons and in its own interest, to consider ways of publicising the importance of carrying out maintenance work, and how to detect the repairs which are most commonly needed. There have been a number of useful initiatives, notably the series of Home Improvement Months sponsored by the National Home Improvement Council; but more could be done.

15. Even when they do recognise that work is needed, many householders are deterred from undertaking it by concern about the standard of workmanship. Sometimes owners act against their own best interest: the cheapest builder is not always the one to choose. More publicity needs to be given to advice such as the Office of Fair Trading's "7 Golden Rules" (included in their 1983 Report on home improvements) aimed at those intending to employ a builder.

16. The Government welcomes the initiatives taken by the building industry to introduce warranty schemes. The Federation of Master Builders has had a scheme in operation for some time which its members can offer. The Building Employers Confederation has introduced a scheme which all BEC members are required to make available to clients. By offering the householder a guarantee of good workmanship, warranty schemes increase the willingness of owners to carry out work to their homes. The Government hopes that warranty schemes will be improved and extended, and become widely used for major renovation work.

17. It is also important that work is carried out with a minimum of disruption. In England, over a third of owner-occupiers living in houses needing major repairs are old age pensioners. In Wales the figure is as high as 50%. Fear of disruption to their homes deters many elderly people from undertaking repairs and improvements. They need reassurance that the work will be carefully planned, and that everything will be put back in place.

18. For larger jobs, householders frequently need to borrow to finance some or all of the work. Where the house is being bought with the aim of renovating it the improvement cost is often included as part of the mortgage. In the last few years the lending institutions have shown themselves increasingly ready to lend on older houses in need of renovation. However, the majority of unsatisfactory dwellings have been occupied by the same household for more than 10 years. In these cases an existing mortgage will need to be increased or a new loan taken out. The amount of further advances for improvement and repair work has risen dramatically in recent

years. Building societies alone lent £1,500m in this way in 1983, compared with £150m in 1973. The Government welcomes this trend; the availability of loan finance will do much to encourage owners to carry out renovation work. The Government's Green Paper on building society powers, published last July[1], outlines various proposals which would make it easier for households to obtain funds for home improvements and repairs. These include the possibility of building societies offering unsecured loans and second mortgages on property already mortgaged to another lender.

19. Some of the money being advanced is in the form of maturity loans. Under these arrangements the capital is repaid when the house is sold and only the interest is due meanwhile. Maturity loans are especially worthwhile for elderly owners who can use them to exchange a share of the equity for money to carry out repairs or improvements. The Government is keen to see the lending institutions provide and advertise maturity loans, and devise attractive loan packages for renovation work.

20. Housing conditions will only be improved if we make the best use of private sector expertise and finance. The Government intends to discuss with the building industry and the lending institutions ways in which this can be done.

AGENCY SERVICES

21. Helping households to identify when repairs are needed, publicising the best way of securing the services of a reputable builder and ensuring that loan finance is available will all help. But some owners will still find the prospect of carrying out major work to their homes a daunting one. In such cases more direct help is needed.

22. Agency services of various kinds are already available in some places to help such owners. These Agencies are organisations which have been set up by local authorities, housing associations, charitable trusts or trade associations to offer home owners practical help with their home improvements or repairs. Some Agencies offer a full building works service; but more commonly they act in an advisory capacity, helping their clients to identify the work that needs doing, contacting building firms on their behalf and arranging the necessary funding through grants or building society loans.

[1] 'Building Societies: A New Framework' (Cmnd 9316).

23. The Government believes that such services will have an increasingly important part to play. The organisations involved, and the type of work they cover, will vary from place to place. The Government welcomes the steps which the private sector has taken to establish Agencies, particularly where they can tap private finance. Charitable organisations have set up services in several parts of the country, including the Ferndale Home Improvement Service in the Rhondda and Tyneside Housing Advice Centre in Newcastle. The National Home Improvement Council has begun pilot Neighbourhood Revitalisation Services in several areas. Even where Agencies have been the responsibility of local authorities and housng associations, building societies and banks have often been willing to earmark funds for improvement and repair loans in the area; sometimes they have seconded staff or provided show houses. The Green Paper on building society powers suggests that societies might themselves wish to offer Agency services.

24. Agency services have a particularly important part to play in increasing the level of renovation activity among those households who would otherwise be least likely to undertake work to their homes. Some Agencies will be operated and financed wholly by the private sector; in others some public sector involvement will be necessary. The Government intends to legislate to clarify the powers of local authorities and registered housing associations to provide Agencies. So far as funding is concerned, local authorities could be empowered to provide contributions towards housing association agencies operating in their areas, as well as having the power to fund services for themselves. In either case, however, the bodies concerned will be expected to minimise costs by securing help from the private sector and levying fees where appropriate.

FINANCIAL HELP FOR OWNER - OCCUPIERS

25. The policies set out above are aimed at increasing private spending on improvement and repair. But the 1981 English House Condition Survey found that 64% of owner-occupiers living in unsatisfactory property had household incomes of less than £4,200 a year; 37% would have needed to borrow at least 3 times their annual income to carry out all the work which was needed; 35% were headed by pensioners. In Wales over 40% of heads of households of unsatisfactory properties were pensioners; only 41% of heads of households were in full or part-time employment. Few such people will have sufficient savings to pay for all the work which is needed to their homes. Frequently they will be unable to afford the interest payments on a bank or building society loan. If disrepair is to be prevented and the condition of the housing stock is to be improved, the public sector will need to continue to provide help to overcome these problems.

Who should be eligible for help?

26. The Government has given very careful consideration to ways of deciding who should be eligible for help in future. Determining eligibility simply according to the condition of the dwelling is not enough. Because the potential demand for help will always be greater than the public resources available it will not be possible - even if it were right - to give assistance to all who live in unsatisfactory houses. There is no need to offer help to those who would have undertaken the work anyway. In allocating the money which is available, priority should therefore be given to those whose means do not enable them to borrow on normal terms or who do not have enough savings to meet the cost of the necessary work.

27. For owner-occupiers, Rateable Value limits (at present £400 in London and £225 elsewhere) have been used since 1974 to determine eligibility, on the assumption that those living in unsatisfactory houses below these limits were least likely to be able to finance work to their homes unaided. But there is evidence that the system fails to direct money where it is most needed. Research carried out into a sample of grants given between 1981 and 1983 underlines these shortcomings. Some of the main results from this research (the Distribution of Grant Enquiries) are set out at Annex 1. The relatively poor targeting of grants towards those who most need them is caused partly by the reluctance of those on low incomes, especially the elderly, to apply for help. But the problem goes wider than that. There is evidence that as many as a third of those eligible for grants at present could in fact afford to finance from their own resources all the work which is needed; while up to 150,000 owner-occupiers at present ineligible for help could not afford any of the essential work. This is because there is little relationship between the Rateable Value of dwellings and the ability of owners to finance necessary repairs and improvements; this finding applies to all levels of Rateable Value. In their report, published in July 1984, the Public Accounts Committee drew attention to the need for further thought to be given to the extent to which priority groups are being reached.

28. The Government has therefore concluded that a new method is needed for deciding who should be eligible for help. A simple method would be one which relied wholly on "passporting"-making eligible only those in certain groups already identified by their entitlement to other forms of Government support. This is attractive in theory but does not serve the purpose: too many owner-occupiers who fall outside such groups need help and too many within them do not. The central issue is whether owner-occupiers can afford to finance from their own

resources the work needed to their homes. The objective of any new system must be to direct assistance to those who are unable to do so. The only way this can be achieved is by taking direct account of the resources available to each owner to carry out essential repairs and improvements. The Government therefore proposes to introduce a system under which eligibility is determined by the financial circumstances of the owner-occupier's household. This will be fairer to those who need help; and fairer to those taxpayers and ratepayers who must provide it. The Housing Benefit system is under examination as part of the Social Security review and the Government's conclusions will be published shortly. It will make sense if tests for eligibility for help with repairs and improvements are compatible with (even if they cannot be exactly the same as) those for entitlement to housing benefits. The overriding aim will be to ensure that as far as possible the system includes those who are unable to afford necessary improvement and repair work unaided, and excludes those who do not need help.

When should help be given?

29. At present, help is available in the form of four different types of grant. Some of these are mandatory - local authorities are obliged to give them if certain conditions are met. Other grants are discretionary - local authorities are free to decide when to offer them. Intermediate grants for houses lacking basic amenities are mandatory. Between 1971 and 1981 the number of private sector dwellings lacking such amenities in England fell from 2.1 million to 622,000; and, in Wales, from 129,000 in 1976 to 74,000 in 1981. The number of houses unfit for human habitation remained, however, virtually unchanged in both England and Wales. Mandatory repairs grants are available in some but not all circumstances where local authorities require owners to carry out work to make a house fit. However, such grants rely on the local authority initiating action in respect of the house. Out of 116,000 repairs grants given in England in 1984, less than 5% were mandatory.

30. The Government therefore proposes a simpler system. Help should be mandatory for any improvement or repair work needed to bring dwellings up to the proposed new standard of fitness for human habitation (see paragraphs 61 to 65 below and Annex II). This would mean that any owner-occupier who believed his house to be below the new standard could apply to the local authority for financial help. Where the authority was satisfied that the dwelling was below that standard; that the applicant met the eligibility test; and that renovation was the appropriate

method of dealing with the dwelling, the authority would be obliged to contribute towards the cost of making the property fit for human habitation. This would apply also where the local authority served a notice on the property. There would be no Rateable Value limits, nor would there be any limits on the age or location of dwellings eligible for mandatory help.

31. The justification for financial help is clear where houses are unfit. The health and safety of those living in such property are at risk. Local authorities already have a duty to ensure that unfit houses are dealt with; this requirement will be strengthened under the Government's proposals (see paragraphs 66 to 68 below). But there is also a case for providing help where property is fit but in need of improvements or repairs. If the owner of such a house is unable to afford the work which is needed, it is likely to deteriorate further, possibly to the point where it does become unfit.

32. Under the present system, discretionary improvement and repairs grants are available in such circumstances. However, the existence of two different discretionary grants causes confusion and administrative complication. It is also undesirable that help is not available at all in some circumstances. The Government therefore proposes that there should be a single type of financial assistance covering any combination of repairs and improvements needed to put dwellings into reasonable repair and give them a 30 year life. Help would remain discretionary. At present, repairs grants are available only for pre-1919 properties; dwellings built up to 1961 are eligible for improvement grants. Although pre-1919 housing still makes up the bulk of property needing major repairs, the number of inter-war houses in poor condition increased nearly three fold between 1971 and 1981. In future, such help will be available for dwellings built before 1940, subject of course to the tests for eligibility, etc.

In what form should help be given?

33. The Government has carefully considered the respective merits of grants and loans as forms of assistance. Our primary aim is to help those who cannot afford to improve and repair their homes. A system of loans would not be incompatible with the proposed system of eligibility tests provided that the method and timing of repayment did not impose any financial hardship on the borrower. Over the years repayments of loans would not only reduce the cost to the taxpayer and ratepayer; by recirculating the money it would also enable more people to be helped for the

same overall expenditure. Grants are an outright gift: it is proper that they should be restricted to circumstances where such a generous form of help is really needed to get bad property improved.

34. In all cases where help is discretionary, the Government proposes that it should take the form of loans. Because the eligibility test limits help to those with modest means, local authorities' existing powers to give loans will not be sufficient: loans will have to be made available on a basis which does not require the borrower to make regular payments out of income. The proposal therefore is that they should be provided interest-free but on an equity-sharing basis. Under such a system, the lender would, at the time the loan was paid, take a charge on the property. The charge would be for the amount of the loan as a proportion of the post improvement value of the dwelling; the amount to be repaid would then be that proportion of the house's eventual selling price. Annex III sets out in more detail how the system might work.

[35. An alternative to local authorities giving the loans themselves would be for banks or building societies to lend on these terms, with some new form of guarantee from the public sector. The Government intends to discuss with the lending institutions the practicability of such an arrangement.]

36. A loan system of this kind will enable owners on low incomes who live in unsatisfactory housing to carry out the work which their homes need, and which they would otherwise be unable to afford, without having to worry about paying anything towards the cost until the property is eventually sold. At that stage the owner or his executors will be in a position to repay the appropriate sum without financial hardship.

37. Mandatory help will be available only for those dwellings in the very worst condition which are unfit for human habitation and endanger the health or safety of their occupants. It is essential that such property is dealt with quickly. Wherever possible that should be by voluntary action on the part of the owners, rather than by recourse to the powers of compulsion which will continue to be available to local authorities. This means that it will be important to secure a high level of take up of help. For these reasons owners need to be given the maximum encouragement. The Government proposes therefore that grants should be available for all work necessary to bring dwellings up to the fitness standard. In

those cases, subject to the arrangements proposed in paragraphs 69 to 68 below, local authorities will invariably be obliged to give help to those who meet the eligibility test.

38. Where properties below the fitness standard are to be brought above that standard, the Government envisages that the arrangements would be as follows. An owner who passed the relevant eligibility test would automatically be eligible for a grant to make his home fit. If he wished to carry out additional work, and the local authority felt it appropriate not just to make the house fit but to renovate it to a higher standard and give it a 30 year life, the authority would be able to top up the mandatory grant with a discretionary equity-sharing loan.

Other aspects of the new system

39. The system proposed would enable the present rules on grant rates and eligible expense limits (EELs) to be greatly simplified. Grants or loans would be available on a single sliding scale, with the highest rates of grant reserved for those on the lowest income and for applicants with the highest costs of repair or improvement relative to their resources. EELs - the maximum total cost of work to any one property which can attract assistance - would also be simplified. There would be basically two EELs. One limit would be for mandatory grants; another would be for discretionary loans. There would, however, be higher limits in both cases in London.

40. Where grants or loans are provided it is essential that the work is carried out to an acceptable standard and represents good value for money. Measures are also needed to avoid abuse. The present arrangements do not fully meet these requirements. Though some local authorities keep lists of builders who carry out grant-aided work, applicants cannot be obliged to use firms from such lists. Indeed there is no legal requirement for the applicant to use the builder whose estimate was approved by the local authority - even though authorities are obliged to pay the amount of grant originally agreed, irrespective of the actual cost of the work.

41. The Government considered giving local authorities rather than individual householders responsibility for choosing the builder, letting the contract and supervising the work. This would mean very high administrative costs for authorities; it would also remove the contractual link between householder and

builder, even though the former would be paying a proportion of the cost. The Government has therefore decided against this solution, but intends instead to take action in two areas:

i. by continuing to allow applicants to choose the builder but making local authorities responsible for satisfying themselves as to the quality of contractors. Authorities will be given a duty to reject applications where the builder whose estimate is provided is not, in their judgement, a suitable person to carry out the work. One indication of suitability might be that the firm offered a warranty scheme~~s~~ (see paragraph 16 above). The Government intends to discuss this approach with the building industry and the local authority associations;

ii. by ensuring that each applicant employs the builder on whose estimate the offer of grant or loan was based. Local authorities will be given the power to withhold assistance from anyone who, without good reason, uses a builder other than the one whose estimate was approved.

42. Local authorities will still be able to approve assistance for do-it-yourself work where they believe the applicant is competent to carry out the repairs or improvements to a satisfactory standard. DIY work will attract help only towards the cost of materials used.

42A. These new arrangements will not affect outstanding applications submitted before 1 April 1984 in response to the Government's grants initiative (under which 90% rates of grant were generally available for applications made between 12 April 1982 and 31 March 1984). Transitional arrangements will also be introduced to allow local authorities to deal with applications made from 1 April 1984 under the existing system.

HELP FOR LANDLORDS AND TENANTS

43. So far as the private rented sector is concerned, the Government proposes that tenants with regulated tenancies should be eligible for help on the same basis as owner-occupiers - ie using a test based on the financial circumstances of the household. A similar test would not be appropriate for landlords. Instead, assistance to landlords would, except for Houses in Multiple Occupation (HMOs), be limited to dwellings let on regulated tenancies with registered rents.

44. Landlords and tenants meeting these criteria would be eligible for mandatory grant . These would be available to make dwellings fit, or, in the case of HMOs, to in tall missing basic amenities and provide means of escape from fire and fixed fire recautions. There would be no clawback of grants from tenants, or HMO landl rds. For other landlords grants would automatically be reclaimed, but only where the dwelling concerned was sold with vacant possession within 5 years.

45. The Government envisages that equity-sharing loans would be available to priva e landlords meeting the criteria set out in paragraph 43, as well as owner occupiers. The terms of the loans would be the same in both cases. It would not b possible to offer such loans to tenants; they would have no house to sell. Tenan s would therefore not be eligible for help to improve or repair houses above the f tness standard.

HELP OR THE DISABLED

46. The Government seeks views about the possible systems for assisting housing laptations for the disabled, set out at Annex IV.

FINAN IAL HELP FOR DEVELOPERS

47. t would not be appropriate to use arrangements such as these for grants or loans in cases where property is being converted or renovated for sale by devel pers. Instead, the Government proposes to introduce a variant on the Impro ement For Sale scheme. Under these powers local authorities will be able to give rants to developers in cases where the proceeds from the sale of the prope ty are insufficient on their own to provide an adequate financial return.

48. The arrangements will be designed to offer a quick and cost-effective way of getti g empty local authority property and property in statutory improvement areas impro ed and brought into use. The scheme needs to be simple while ensuring that the p blic sector cost is kept to a minimum. The amount which the local authority can p y will be subject to an absolute ceiling per dwelling. There will also be contr ls to ensure value for money and to take account of the size of projects. The l cal authority's agreement will be necessary to the final selling price, and the g ant paid to the developer will be adjusted in the light of this. The devel per will bear the risk that the work itself will cost more than originally fores en. It would be possible in addition to require improved dwellings to be offer d for a certain period to existing public sector tenants and those on waiti g lists.

AREA IMPROVEMENT POLICY

49. Area action has an important role as part of a strategy for improving the condition of the housing stock; it will continue as a central plank in the Government's policy. The declaration of an area can do a great deal to increase private spending by reassuring the inhabitants and others, such as the lending institutions, that its future is secure. Areas also provide a way of concentrating public sector help so that it has the maximum effect.

50. There are at present 560,000 houses in 1,936 statutory improvement areas in England - 375 Housing Action Areas (HAAs) and 1,561 General Improvement Areas (GIAs). In Wales there are 48,000 houses in 130 areas. The number of houses in potential areas is even greater - 1.4m in 1981. Some HAAs and GIAs have been conspicuously successful. In HAAs reaching their 5th year in 1980 77% of dwellings needing major works to them had been improved. But some have been less successful, and overall the condition of HAAs merely held steady between 1976 and 1981 (though similar areas which had not been given HAA or GIA status actually deteriorated). Sometimes this was because local authorities declared inappropriate areas - the houses, and the surrounding environment, must be capable of being improved. In other cases too little money and manpower was set aside. Local authorities must accept that area improvement policy needs careful planning and a substantial commitment of resources. It is vital to ensure the cooperation of the lending institutions, and to be prepared to give declared areas priority in allocating public sector funds.

51. The Government proposes that in future the main purpose of areas will be to increase local confidence and attract private funding (though local authorities will continue to be able to carry out compulsory acquisitions, subject to Ministerial approval). The arrangements for declaring areas will be drastically simplified. It is not necessary to have two types of area: the characteristics of areas declared as HAAs and GIAs have become increasingly similar; and the powers available to local authorities are now virtually identical. There will therefore be a single type of area - a Housing Improvement Area (HIA). Although HIAs will be expected to act as the focus for schemes involving the co-ordinated repair of blocks of dwellings and for other kinds of financial help, they will not (apart from IFS for developers) be restricted to HIAs and the rules governing local authority assistance to householders will be the same there or elsewhere. There will be transitional arrangements to cover the move to HIAs.

52. The legislation will set out the broad criteria which HIAs must meet, including a minimum size; a minimum proportion of dwellings needing substantial and structural repairs; and a maximum proportion of local authority housing. HIAs should also be areas where social and environmental problems exist side by side with poor housng. If areas meet these requirements, local authorities will be able to declare them as HIAs. The Government would probably need a power of veto over declarations, as it has at present with HAAs, unless Exchequer contributions cease to be available for spending on environmental works (see paragraphs 77-79 below). HIAs will be time-limited; the Government has in mind 7 years.

ENVELOPING AND BLOCK REPAIR

53. There are benefits in spending public money on the renovation of houses in a single street or neighbourhood rather than spreading the same amount of resources across a wider area: the impact is greater, both on the local environment and on the confidence of owners. Concentrating help in statutory (and non-statutory) improvement areas has been one way of taking account of these benefits.

54. More recently, techniques have been developed whereby local authorities bring about the renovation of the external fabric of entire blocks or terraces of dwellings which have deteriorated beyond the scope of routine maintenance. The object is to secure quick, coordinated repair which produces a significant impact on the general character of the area as well as achieving economies of scale. Enveloping is one such approach, at present involving 100% public sector financial support. So far, 55 enveloping schemes have been approved in England covering 5,373 dwellings and 8 in Wales covering 919 dwellings. Progress with enveloping has, however, been hindered by the unsatisfactory nature of the existing statutory powers to carry out such works.

55. Another approach has been to group individual repairs grants into a single contract, with owners contributing to the cost. Several authorities have been successful in carrying out such schemes, often called 'limited enveloping' or 'block repair'.

56. The Government proposes to introduce legislation to provide a general power for local authorities to institute schemes for the external repair of groups or blocks of privately owned dwellings. The legislation will provide that, where possible, owners should contribute towards the cost: this gives better value for the public sector resources involved, and it is desirable in principle that owners should have a financial stake in the work which is carried out to their homes. Authorities operating 'block repair' schemes have found it possible to secure contributions, even in areas where incomes are low.

57. So far as possible the Government wishes to give local authorities a free hand to carry out schemes where local circumstances make this appropriate and they have the agreement of the owners concerned. The legislation will therefore allow local authorities to undertake such projects without seeking individual approvals from the Government, providing they meet certain criteria. These will cover:

i. the minimum size of scheme and maximum number of empty properties;

ii. a requirement that the great majority of owners affected should be eligible for home improvement assistance;

iii. a condition that 10% of the cost of work to each dwelling should be obtained from the owner or occupier, though authorities will be allowed to undertake schemes where a small proportion of owners is in such financial hardship as to be unable to afford to meet any of the costs; and

iv. the cost of the scheme, including the relationship between the cost to the local authority and the increase in value of the dwellings;

Schemes not meeting the criteria will need to be submitted for consideration by DOE or the Welsh Office.

58. Projects will be restricted to work to the exterior of the dwellings: they will not cover other work within the curtilage (for example the rebuilding of boundary walls) nor internal work. Local authorities will be able to help finance such work, but this help will be subject to the proposed rules set out in paragraphs 25 to 45 above and to overall limits on the amount of public investment in individual properties.

59. Schemes will be expected to have an impact on the surrounding area, but the powers will not be limited to statutory improvement areas.

60. As all or almost all the owners will be contributing towards the cost, the formal responsibility for letting the contract could rest with them rather than the local authority, though in such cases there would be a single contract and the authority would need to act as the managing agent and offer advice and help to the owners. The alternative would be for local authorities themselves to be legally responsible for letting the contract, following full consultation with owners. To enable owners to contribute 10% of the cost, local authorities will need to arrange with building societies and banks for loans - often maturity loans - to be available.

MINIMUM HOUSING STANDARD

61. Ever since 1868 there has been a minimum housing standard - conditions below which no household should be expected to live. Where dwellings are in such a bad state as to put their inhabitants at risk, the public sector needs to intervene to ensure that they are either brought up to an acceptable standard, or cease to be used. Since 1957 the minimum standard in England and Wales has been the fitness standard. Under that standard, local authorities have to assess whether a house is suitable for occupation, taking into account nine factors: repair, stability; freedom from damp; internal arrangement; natural lighting; ventilation; water supply; drainage and sanitary conveniences; and facilities for the preparation and cooking of food and the disposal of waste water.

62. At the time the fitness standard was framed it was clear that many houses failed to meet its requirements by a wide margin. As the number of outright slums has been reduced, the proportion of houses which are on the borderline between fitness and unfitness has increased. Nowadays, with fewer houses lacking basic amenities, the decision is often a very difficult one. To help local authorities the Government intends to set a new fitness standard and to offer advice to local authorities in administering it.

63. In Scotland the fitness standard was replaced in 1974 by the tolerable standard. Under this standard local authorities are still required to consider houses aganst a list of criteria but the property is automatically below the

standard if it fails to meet the requirements in one or more respects - there is no need for authorities to try to reach an overall judgement about its condition. The system to be adopted in England and Wales will follow this approach.

64. The Government believes that a policy of raising the minimum standard to match rising social expectations would be inappropriate. Being unfit for human habitation implies the local authority taking action to improve or demolish the property - if necessary against the wishes of its owner. People should not be subjected to such powers unless the property is demonstrably bad, to an extent where health or safety is endangered. The Government therefore proposes that the new fitness standard in England and Wales should be broadly the same in content as the present fitness standard. However:

a. it will include requirements for a fixed bath or shower, and that the WC should be within the dwelling; and

b. it will not include a general requirement concerning the internal arrangement of the dwelling.

The new standard is set out in full at Annex II.

65. Advice will be prepared for local authorities on the interpretation of the new standard. The assessments of individual dwellings should be as objective as possible: the advice will include recommendations designed to help authorities to adopt similar standards in considering such matters as dampness and natural lighting.

ACTION AGAINST UNFIT DWELLINGS

66. Where houses are unfit for human habitation they should be dealt with as quickly as possible. This does not always happen. In 1983-84 only 24,000 properties in England and 4,600 in Wales, regarded by local authorities as unfit, were subject to compulsory action to secure their renovation, closure or demolition. In future local authorities will be required to carry out regular inspections of their areas with a view to assessing the number and location of unfit houses. Local house condition surveys will be one method of doing this.

Where houses are found to be unfit authorities will be required to take action to secure their renovation or closure within a period of not more than 12 months from the date at which they are declared to be below the standard.

67. Local authorities need to decide whether renovation or demolition is the more appropriate course for unfit houses. In making this choice the present legislation requires them to judge whether or not the house can be improved at "reasonable cost". There has been a substantial amount of case-law on the definition of this term over the years. In the case of rented property it is generally taken that reasonable cost relates to the tenanted value of the dwelling. Where this value is low, renovation frequently seems uneconomic. However, once a closing order has been made and tenants rehoused, the value of the house can rise significantly - to an extent where renovation is regarded as appropriate.

68. The Government proposes that these arrangements should be revised. In future local authorities will be required to take account of the range of possible options for a dwelling or area in deciding between renovation and demolition. A Departmental Code of Guidance will set out the economic and social factors which local authorities should consider in reaching their decisions. The test of reasonable cost will not be applied. Authorities will rather be required to consider the relative merits of available options. Property owners will continue to have a right of appeal against proposals for compulsory action; they will be able to use a failure to have regard to the Code to argue that orders affecting them should not stand.

CLEARANCE

69. In most cases renovation will offer a more cost-effective solution than demolition, as well as being in keeping with the wishes of the occupiers. The days of large-scale slum clearance are over. Most 19th century slums have been dealt with: the number of dwellings suitable for inclusion in clearance areas was halved between 1971 and 1981. Increasingly, the unsatisfactory houses which remain are individual properties. Some of these need repairs; others require improvements to bring them up to a modern standard. But some still need to be demolished.

70. There is some evidence that the pendulum has swung too far against demolition. The 1981 EHCS found that there were still 300,000 houses in potential clearance areas, but only 10,000 houses were demolished in England in 1983-84; in Wales 300 were cleared. The rate of clearance is still falling. It is short-sighted and wasteful to spend large amounts of money to keep houses which will never provide satisfactory accommodation.

71. But where demolition is the most cost-effective solution it will be necessary to proceed with greater sensitivity than in the 1960s, when great areas of old houses were often laid waste. The EHCS showed that two thirds of the houses in potential clearance areas were in groups of less than 10 dwellings. Often the sites were interspersed with basically sound housing which could and should be retained. To do this will mean careful planning of the arrangements for decanting, selective clearance and redevelopment, especially if, as is highly desirable, a sense of community is to be retained.

72. To provide a good mix of replacement housing, and to keep down public expenditure, private developers will need to be involved to the maximum possible extent. The Government proposes that local authorities should be

(a) given a statutory duty to seek the involvement of the private sector in redevelopment schemes; and

(b) empowered to offer pump-priming finance to developers where the cost of clearing and redeveloping the land is more than the price which can be obtained for new housing built on the site.

The arrangements for such grants will be similar to those already set out in paragraphs 47 and 48 above for the proposed 'IFS for developers' system. They will be aimed at small clearance sites where the value of existing housing in the neighbourhood is low. The price at which the land is sold to the developer will be fixed by the District Valuer. Local authorities will need to appraise schemes carefully to ensure that developers' costs are reasonable and that the selling price is the maximum that the market will bear. The Government will consider limiting the scheme initially to a few pilot areas, in order to assess the administrative problems which may arise.

73. The Government also proposes that the arrangements for compensating those affected by clearance should be simplified; in future all owners will be entitled to market value compensation as of right. In most cases, however, even market value compensation will not be sufficient to enable an owner-occupier to buy another house in reasonable condition. Many households will be unable to afford to borrow on normal terms to make up the difference: in 1981 almost half the households in England living in unfit dwellings had no member in paid employment. The Government therefore proposes that local authorities should be able to give additional financial help towards house purchase, probably in the form of an interest free loan, to owner occupiers and tenants on low incomes who would have been eligible for help with improvements and repairs and who have lived for at least 2 years in houses which are to be demolished. The loan would be repaid when the house they moved to was sold. The cost of such assistance will not need to be taken into account in making the original choice between renovation and demolition. The amounts involved will however be relevant to the autority's own financial planning and should be considered in that context.

OTHER COMPULSORY POWERS

74. Apart from housing below the fitness standard, compulsory powers against private housing (other than HMOs) are not justified except where a nuisance is being caused to neighbouring property or to passers-by. At present action in these circumstances is taken under the Public Health Act 1936. For the future there are two possibilities: either this power could continue, or section 92(1)(a) of the 1936 Act could cease to apply to housing and be replaced by a specific housing power. The choice reflects a difference in philosophy: the Public Health Act assumes that neglect which is so severe as to create a nuisance should be a criminal offence. Under housing powers an offence would not be committed and a grant or loan could be available towards the remedial work which was required. On balance the Government prefers the latter course, but would welcome comments from those most closely concerned.

75. All compulsory powers will be subject to a single set of procedures, following the pattern presently used for repair notices under the Housing Act 1957 but covering both improvements and repairs. The owners and occupiers of property affected by the powers will be given full opportunity to appeal against notices serviced. Owners will not be able to serve purchase notices.

PUBLIC EXPENDITURE

76. The Government will continue to decide annually the amount of public spending on housing which the country can afford. It was never the Government's intention that expenditure on private sector housing improvement should continue indefinitely at the levels of the last 2 or 3 years. The level of spending on mandatory grants will be largely outside the control of local authorities. Authorities will then be able to decide how much of the remaining resources available to them to spend on loans and on other methods of improving private sector housing. The proposals set out in this consultation document are aimed at ensuring that the public money which is spent is used to produce the maximum benefit.

EXCHEQUER SUPPORT FOR LOCAL AUTHORITY SPENDING

77. At present the Government, through specific Exchequer support, pays a large proportion of the cost of local authority spending on private sector housing improvement and slum clearance. These contributions have been used as a method of influencing authorities' spending patterns - particularly by increasing the level of support towards home improvement grants. The existence of such contributions has enabled individual local authorities to increase spending on grants at very little cost to their ratepayers. For the future, one possibility would be to continue to support such spending in this way. It would, however, be inappropriate and excessively complicated to pay such contributions towards equity sharing loans or local authority interest payments in respect of them: authorities would normally expect to receive back in due course more than their initial expenditure on such loans.

78. The alternative would be to provide Exchequer support for spending on slum clearance and private sector housing improvement wholly through block grant. This would be more in keeping with the Government's general wish to leave local authorities to decide how to spend the resources available to them. It would also reduce the workload both of local authorities (who have to draw up the claims) and Departments (who have to check them). Support through block grant alone need not imply a change in the overall level of Government support for local authority spending, since the reduction in the specific Exchequer contribution could be matched by an increase in the amount available for distribution as block grant. If

this option were chosen, the Government would need to discuss with the local authority associations how authorities' Grant Related Expenditure assessments should be calculated for these items of expenditure and the implications for expenditure targets, if any.

79. The Government would welcome views on the two possibilties.

THE NEXT STEPS

80. The Government would welcome comments from local authorities, the lending institutions, the building industry and other interested bodies on its proposals. It will be discussing the details with those most concerned, with the intention of introducing legislation when the opportunity arises.

81. The policies now being established provide the blueprint for improvement policy over the remainder of this century. The measures proposed are forward-looking and positive. The cornerstone of policy must be that owners are primarily responsible for the condition of their houses, though they should be given appropriate help and encouragement in shouldering that responsibility. Where public sector intervention is called for it should be designed to secure better value for the public money available. Within the constraints imposed by the need to secure better value for money, the statutory framework should be simplified wherever practicable so that it can be understood by those who are affected and administered efficiently. The Government believes that its proposals achieve these aims.

ANNEX 1

DISTRIBUTION OF GRANT ENQUIRIES

A. ENGLAND

1. In autumn 1983 the Department of the Environment carried out a study - the Distribution of Grant Enquiry (DGE) - to establish which people and properties received home improvement grants, the condition of the property before and after improvement or repair works were carried out, and the influence of grant availability on the decision to repair or improve. The study enabled comparisons to be drawn between the population who obtained grants and those people who according to the 1981 English House Condition Survey (EHCS) were potential grant recipients[1]. Data obtained by the DGE are generally representative of grants paid between 1981 and June 1983.

2. Results from the DGE are highly relevant in considering the future of the grant system. Some of the main findings relating to owner occupiers (but excluding grants for adaptations for the disabled) are set out below. The full DGE results will be published in due course.

Grant Recipients

3. Grants recipients are not too dissimilar to potential recipients although there is scope for improved targeting, Figure 1.

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1 Potential grant recipients are defined as those owner occupiers whose dwellings would justify grant aid by virtue of condition and where the dwellings are within the current age and rateable value limits. The EHCS estimated there were some 1.6m owner-occupied dwellings in this category.

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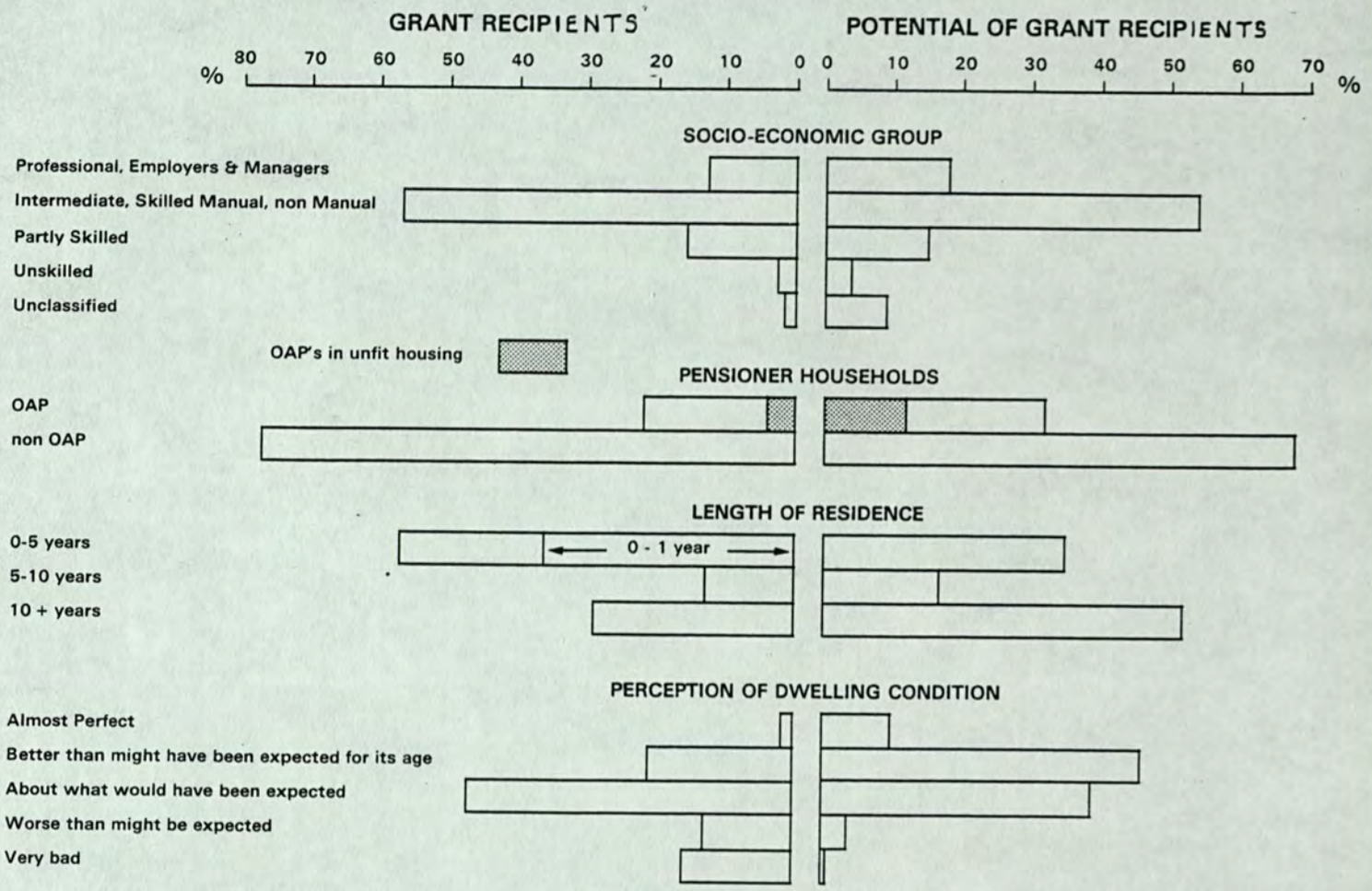
Figure 1 : GRANT RECIPIENTS



Contrary to anecdotal evidence, professional and managerial classes were not shown to be over represented as grant recipients. But elderly households accounted for only 20% of recipients despite the fact that over one third of potential recipients were of pensionable age. And the elderly who had grants tended to live in better housing conditions than elderly potential recipients. The under-representation of the elderly as grant recipients helps to explain the wide difference between the average incomes of recipients and potential recipients. The average income of recipients, (household head plus partner) was about £7,000 pa (1982 prices) - approximately the same as the national average, but substantially higher than potential recipients whose average household income was £3380 (1981 prices).

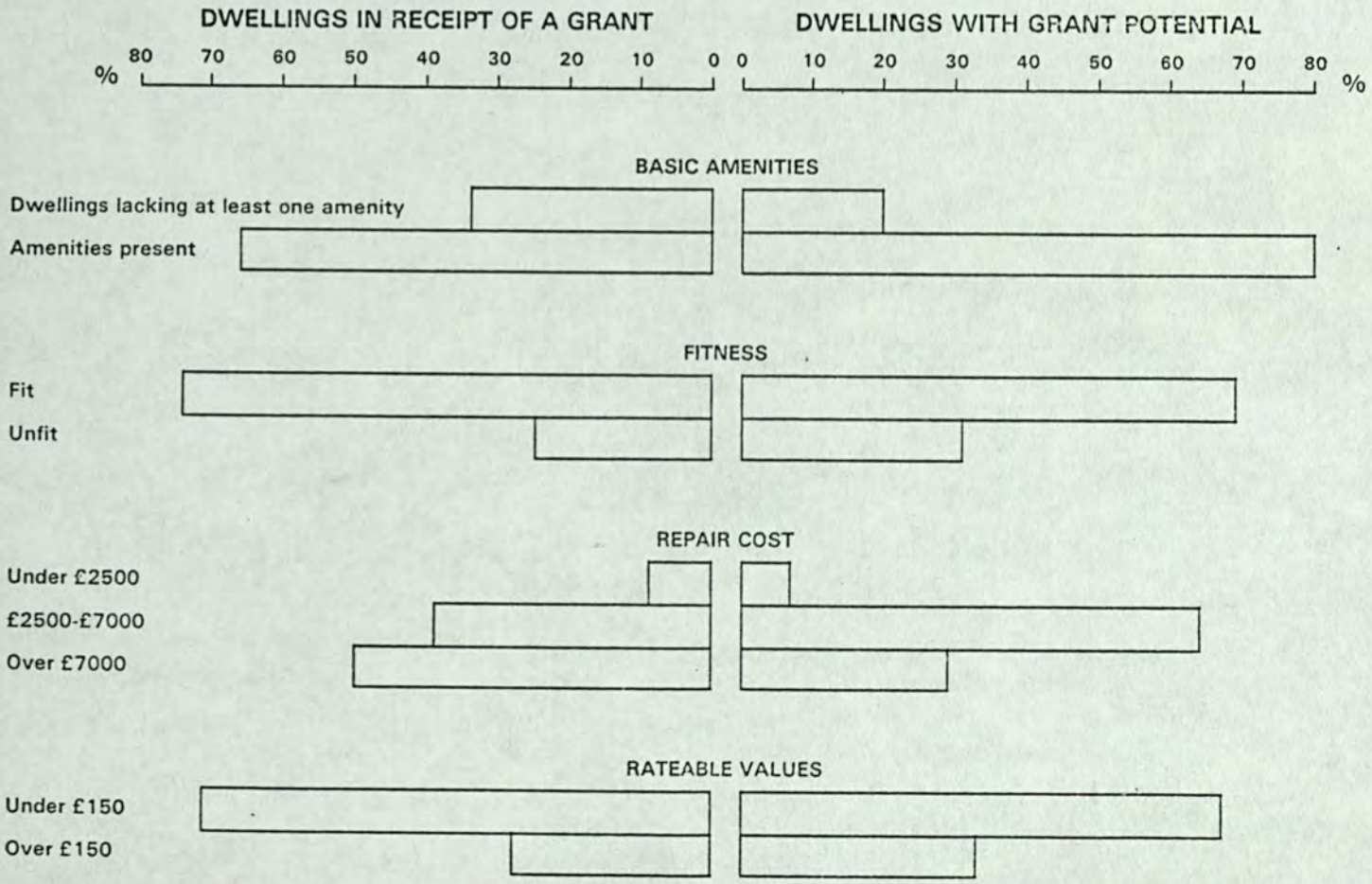
4. Grant aided work was more likely to take place when a property changed hands rather than being undertaken by someone who had lived in their home a long time. Purchase of property to improve or repair played an important role in improving the condition of some of the worst stock. One-third of the properties bought immediately prior to grant aided work taking place were unfit and half lacked at least one basic amenity. Taking on a property in need of repair and improvement provided a valuable step into owner occupation. Over 60% of people who took on a house to improve or repair were first time buyers; 50% of all purchasers are first time buyers.

5. As might be expected, people who obtained grants were more perceptive and concerned about the condition of their property than potential grant recipients, Fig 1. Over one third of recipients had undertaken some work to their house before they applied for a grant.

Dwellings on which Grant is paid

6. Targeting of grants had been effective in providing amenities and directing resources to dwellings in serious disrepair (Fig 2). However, the grant system picked up fewer unfit dwellings than might be expected.

Figure 2 : DWELLINGS IMPROVED BY GRANT



7. The three types of grant were directed to different sectors of the stock. Improvement grants concentrated on the worst houses: 40% went to dwellings which were unfit; 60% to houses with repair costs in excess of £7000: and half to houses lacking at least one basic amenity. Repairs grants went to dwellings in relatively better condition: just over 10% were unfit and 40% had £7000 + repair costs. By definition all intermediate grants provide basic amenities: they went to unfit houses in 25% of cases and dwellings with repair costs over £7000 in 40% of cases.

8. Grants generally were given for dwellings which commanded low market values. This was partly due to their type, the majority being small terraced houses built before 1919, as well as their condition. 70% of grant-aided dwellings had rateable values below £150. Where a property had been bought immediately prior to improvement or repair work being carried out, the average purchase prices was £16,000 - substantially less than the national average of £25,600 (1982 4th quarter [1]) and £2460 below the average for older terraced houses.

Works Carried Out

9. In over one third of cases the local authority inspector said that work needed to be carried out in addition to that identified by the grant applicant. Grant aided work concentrated on the essential work such as repairs to the structure of the property and the provision of basic amenities. Grants resulted in the installation of at least one basic amenity in one third of cases. If only improvement and intermediate grants are considered this increases to two thirds. Repair work was undertaken on roofs and walls/chimneys for 70% and 65% of dwellings respectively. In contrast less than 20% of grants provided for the installation of central heating (if only improvement grants are considered, central heating is installed in just over one third of cases).

10. The majority of grant recipients were satisfied with their accommodation following grant aided work although over one third felt there was still work to be done. Improvement grants provided the most complete job, only 10% of these recipients considered further work to be necessary compared with 40% of other grants recipients. However, little of the work still required related to the dwelling's structure, with perhaps the exception of external walls and damp proof course where further work was considered necessary in 15% of cases. Most of the other work still to be done related to plasterwork and internal fitments.

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[1] Figures from Nationwide Building Society

Sources of Finance for Grant Aided Work

11. Grant percentages given by local authorities do not fully reflect the recipient's level of contribution to the total cost of grant-aided works. Not all work carried out was considered eligible by local authorities; and costs often exceeded eligible expense limits. This was particularly true for improvement and intermediate grant recipients. On average such grants contributed less than 60% of the total cost of work whereas the average rate of grant quoted by authorities was 72% and 86% respectively. For repair grants quoted grant rates more closely corresponded to the effective rates received by recipients. Grants contributed 76% to total costs.

12. Almost half of recipients managed to finance their share of costs using savings alone and a further 10% used savings and other sources of funds. Of all recipients over one third resorted to a mortgage or loan for all, or part of their share of the costs. Where money was borrowed, banks and building societies were especially likely to be used, each accounting for 40% of borrowings. Relations or friends were lenders in 10% of cases.

Role of Grant

13. The DGE sought to establish how far the evailability of grant had influenced householders' decisions to buy and to renovate the houses in which they lived. Although respondents gave consistent information, these results need to be intepreted with caution, particularly where people were answering hypothetical questions about their actions had grants not been available.

14. Most people said they were aware of grants when they decided to do the work but less than 15% said grants were the main reason for carrying out the work. The condition of their property was such that some work would have had to have been done. Grant availability did play a greater role in the timing of the work: almost one third of recipients cited this as a reason for carrying out the work at that particular time. This was the case particularly where the main reason for the work was a leaking roof or general repairs.

15. Where people are buying a property which is known to be in need of improvement or repair, it might be expected that grant availability would play a substantial role in the decision to do so. Two thirds of those who had bought poor

condition property were aware that grants were available before they decided to buy but only half of this group felt that grants influenced their decision.

16. Taken at face value these results and the fact that three-quarters of recipients said they would have done at least some of the work even if they had not had a grant, suggest that people are not unduly influenced by grant availability in their decision to improve or repair their house. However, this underestimates the importance of grants. It is clear that, in many cases where recipients said they would have done work, either less work would have been done or it would have taken longer to complete, or both. Roofs would not have been repaired in one third of dwellings and roof timbers, walls and chimney stacks would have been left untouched in 40% of cases. In over half the cases where people would have carried out at least some of the work, completion of that work would have taken at least five months longer than it would with a grant.

17. One quarter of the people who said they would have done some work unaided claimed they would have found the money from savings. Over half said that they would have financed it with a mortgage or loan. However on the basis of the information which they supplied about their income, savings and mortgage commitments it is highly questionable whether all those who said they would have done some work could have afforded to do so. About 40% of all recipients would have done at least some work without grant and probably would have been able to find the necessary funds. Over one third, whilst saying they would have done some work, would have been unlikely to obtain the necessary finances.

B. WALES

18. A Distribution of Grant Enquiry was carried out at the same time in Wales. Many of the findings were similar to those in England but there were some important differences. The following paragraphs highlight the major results for owner-occupiers in Wales.

19. The characteristics of grant recipients were broadly similar to those of heads of households of substandard dwellings in Wales, although 55% of recipients were in full-time work compared to 41% of the target population (as identified in the 1981 Welsh House Condition Survey). Of those in work, professional and managerial classes represented ~~17%~~ 14% of recipients compared to 6% of the target population. ~~33%~~ About 30% of all grants went to OAPs whereas OAPs made up 45% of the heads of households of the target substandard stock.

20. Most grants went to households with low incomes. The average reported household income of recipients was £5,200; 80% had incomes of less than £8,000. ~~150%~~ 72% of grant recipients had savings of less than £1,000 and only about 7% had savings of over £4,000. Over half (54%) financed part or all of their share of the costs from savings while a third borrowed to pay part or all of their share.

21. Improvement and Intermediate grants tended to go to dwellings in the worst condition while Repairs grants were more likely to go to dwellings in relatively better condition. 26% of Improvement grants and 39% of Intermediate grants went to unfit dwellings while for Repairs grants the figure was 20%. In all, 23% of grants went to unfit properties and a further 23% went to properties which were fit but lacked amenities. Another 24% of grants went to fit properties with all amenities which were in need of repairs over £7,000. Thus over 70% of grants went to these substandard dwellings; this figures rises to ~~over~~ 90% if a repair threshold of £2,500 is used. Grant aided dwellings tended to have a low rateable value: under £150 in 90% of cases.

22. Some 90% of the recipients said that they knew of the existence of grants when they decided to do the work. About a quarter of recipients chose to undertake the work at that particular time because of the existence of grants. Very few recipients considered that the availability of grants alone was a factor in undertaking the work; usually recipients seemed to identify the need to repair or improve their property and then looked at the methods of financing.

23. About 70% of recipients said that they would have undertaken at least some or all of the work without the aid of a grant. However the survey suggests that, taking account of income and borrowing potential, about 60% of grant recipients would have found difficulty in financing the total cost of the works without a grant.

ANNEX II

HOUSING STANDARDS

I. The standard of fitness for human habitation

1. The present statutory minimum standard of housing in England and Wales is one of fitness for human habitation. This standard is contained in Section 4 of the Housing Act 1957 (as amended). Where houses fail to meet the standard, local authorities are required to intervene to ensure that they are dealt with either by renovation or, if this is not possible at reasonable cost, by demolition or closure.

2. A minimum standard will continue to be needed to ensure that people do not live in dwellings which endanger their health or safety. However, the Government considers that changes to the fitness standard are desirable, chiefly in order to make it more objective. A house fails to meet the fitness standard now "if and only if it is so far defective in one or more ..... matters that it is not reasonably suitable for occupation in that condition". This requirement introduces a large subjective element into the consideration by the Environmental Health Officer and the local authority. In the past this was less of a problem than it is today. When the 1957 Act standard was introduced most of the houses which were unfit for human habitation by modern standards had clearly been so ever since they were built. There are far fewer such properties today. Increasingly, dwellings which were once acceptable are falling below the minimum standard as a result of structural deterioration.

3. For the future, therefore, the Government proposes to revise the standard, as well as making some changes to the way it is used. It considers that the most appropriate course is to adopt in England and Wales a new fitness standard along the lines of the existing Scottish 'tolerable standard'. As with the Scottish standard a dwelling will automatically be below the new fitness standard if it fails in one or more respects to meet the requirements set out. The proposed standard is as follows:

"A dwelling shall be regarded as fit for human habitation if, in the opinion of the local authority, it:-

(i) If free from dangerous structural disrepair or instability.

(ii) Is free from dampness so pervasive as to be a threat to the health of the occupants.

(iii) Has adequate natural lighting and ventilation in all main rooms.

(iv) Has an adequate piped supply of wholesome water available within the dwelling.

(v) Has within the dwelling satisfactory facilities for the preparation and cooking of food including a sink with a supply of hot and cold water.

(vi) Has a W/C, for the exclusive use of the occupants, suitably located within the dwelling.

(vii) Has a fixed bath or shower provided with a satisfactory supply of hot and cold water.

(viii) Has an effective system for the drainage and disposal of foul, waste and surface water."

4. The new fitness standard would be the standard below which local authorities were required to intervene to ensure dwellings were renovated, closed or demolished. Where renovation was appropriate, dwellings below the tolerable standard would be eligible for mandatory assistance.

II. The target standard

5. There has been a 'target' standard for the condition of the stock for many years. Since 1974 this has been the "10 point/30 year standard". Dwellings renovated with the aid of discretionary improvement grants have generally been expected to meet this standard which implies that the property is in good condition and can be expected to have a further useful life of at least 30 years.

6. The Government intends to continue with a simplified version of this standard as the condition which dwellings are expected to be in after an equity-sharing loan has been paid (though authorities will have the option of requiring instead that dwellings are merely put into reasonable repair, where attainment of the full

standard would not be an economic proposition). However, for the first time it is proposed that the standard should also be the maximum level towards which help can be paid.

7. The proposed new 'six point standard' for these purposes is as follows:

"A dwelling shall be held to meet the six point standard if it

(i) is fit for human habitation;

(ii) is in reasonable repair;

(iii) has a wash-hand basin with an adequate supply of hot and cold water;

(iv) had satisfactory electric wiring and artificial lighting;

(v) has adequate facilities for heating; and

(vi) is likely to have a useful life of at least 30 years."

ANNEX III

EQUITY SHARING LOANS - HOW THE SYSTEM MIGHT WORK

1. The householder would apply to the local authority for help with work to his house. Provided his financial circumstances indicated that he was, in principle, eligible the authority would inspect the property to assess what work needed doing.

2. If the loan were approved, the applicant would be told that, when the work to which the loan related had been completed, the authority would register a charge against the property. Where the property was already the subject of a bank or building society mortgage, the authority's would be a second charge.

3. When the work was completed to the local authority's satisfaction, there would be an independent valuation of the property. The local authority would use this valuation as the basis for assessing its equity share. The charge would be for a percentage of the value of the dwelling. The percentage would be the amount of the loan itself as a proportion of the property's post-improvement value. For example, if the loan was for £3000 and the post-improvement value of the house was £30,000 the local authority's equity share would be 10%.

4. The householder would not be required to repay the loan, or pay any interest on it, until the house was sold. At that stage he would need to clear the charge in order to be able to sell with good title. When the property was sold in due course, the amount to be repaid would be the percentage of the house's value which had originally been fixed. So, if the local authority had taken a 10% equity share of a house which was then sold for £50,000, the amount due would be £5,000.

5. When the loan was being repaid on the sale of the property, the authority would not usually require an independent valuation of the dwelling. It would, however, have the right to insist on such a valuation if it felt that the house was being sold for less than the full market price. In such circumstances the householder would be required to pay the appropriate percentage of the independently-assessed market value.

6. Where the owner chose, and could afford to do so, he would be permitted to repay before the house was sold. In such a case the amount to be repaid would be the relevant percentage of the current value of the property, as determined for that purpose by an independent valuer.

7. If, after the work for which the local authority loan had been given, the owner decided to undertake further improvements to his home, and felt that these were likely to increase its value, he would be given the opportunity of having a further valuation carried out at that time and of ensuring that this increase was not taken into account by the local authority in assessing the amount which was owed on the equity-share loan. For example, in a case where it was found that the work proposed would increase the value of a house, in which the local authority had a 10% equity share, from £38,000 to £40,000, the authority would reduce its equity share from 10% to 9½%. When the house was sold, the owner would pay the local authority only 9½% of the sale price, rather than 10%.

ANNEX IV

ADAPTATIONS FOR THE DISABLED

1. Since 1974 the home improvement grant system has been used to provide financial aid to disabled people who, as a result of their disability, require structural alternations to their homes. (Social Services authorities are responsible for non-structural features such as the provision of aids and equipment.) In England, the last five years (1979-1983) have seen 25,800 grants given for this purpose, with 2,000 such grants in Wales.

2. This system has never been entirely satisfactory. The shortcomings stem from the fact that the home improvement grant system is based on the condition of the property rather than the physical needs of the occupant. Grants for the disabled are frequently made for dwellings which would not normally be eligible for home improvement grants. The Government has therefore been considering ways in which the needs of the disabled can best be taken into account in the future.

3. The Government believes that, where disabled householders need ordinary improvements or repairs to their homes, the rules should be exactly the same as for other applicants requiring financial help to enable them to carry out such work. Disabled householders would need to meet the proposed eligibility test; if they did, help would be available in the form of mandatory grants to make dwellings fit, or discretionary equity-linked loans to renovate them above that standard.

4. However, where disabled householders need structural adaptations to their homes as a result of their disability, the costs of undertaking such work are additional to those which are normally needed to keep property in reasonable condition. Frequently, such adaptations do not result in a matching increase in the value of the property (indeed, they may sometimes reduce its value). It would not, therefore, be appropriate to require help for the disabled to take the form of equity-sharing loans.

5. Instead, the Government proposes that help with adaptations for the disabled should continue to be in the form of grants. Such grants could be mandatory for work needed to ensure that basic amenities were accessible to the disabled person,

whether this meant providing new amenities (for example a downstairs WC) or improving access to existing amenities. Grants would be discretionary for all other adaptations. The Government does not envisage any test on the financial circumstances of the household where such help is given, though the local authority would have to be satisfied that the work proposed was essential, and was the most cost-effective way of solving the problem, before it approved the grant.

6. One possibility would be for these grants to be linked with the main system of help with improvements and repairs. If this were to be the case, however, a number of special provisions would be needed to take account of the particular requirements of the disabled. These would include, for example, relaxing the age limit on dwellings eligible for discretionary help. It would also be necessary to ensure that help for the disabled was available even where the dwelling was above the proposed 'six point standard' when the grant was approved; it would be for consideration whether dwellings should be required to meet any overall standard after the work had been completed.

7. Alternatively, a wholly separate system could be provided. This would have some benefits: it would give greater flexibility and would probably be the only way of giving grants towards the adaptation of dwellings under construction. A wholly separate system would, however, need to be given sufficient publicity to ensure that those likely to benefit were aware of its existence.

8. The Government would welcome comments on the best way of providing help for adaptations for the disabled in future. Further consultation will take place in due course on the details of the new system.

RESTRICTED

cc 100

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2 April 1985

EMPTY HOUSING OWNED BY NATIONALISED INDUSTRIES

I have seen Patrick Jenkin's letter to you of 19 March.

Following the discussion at E(DL) on 20 November we agreed to provide detailed information on the stock of empty houses held by the NCB to his Department every six months. I am unclear whether his suggestion now is that we should replace this by a similar once-yearly survey in the IFR, or that we should augment it by inclusion in the IFR of similar figures but analysed in a slightly different way, together with an estimate of numbers of disposals in future years. Whilst I would have little objection to the former proposal the latter would undoubtedly involve the Board in substantial extra work and would not, I think be justified. I would question whether it is really sensible to upset the existing arrangements so soon after they were established.

Given the small numbers of houses which the BGC and the Electricity Supply Industry own compared to the NCB and Local Authorities, and the disproportionate amount of work which would be involved, I doubt whether it would be worth delving into their empty houses in great depth and seeking the detailed information Patrick Jenkin proposes.

Copies go to the Prime Minister, members of E(DL), other Ministers in charge of Departments and Sir Robert Armstrong.

PETER WALKER

RESTRICTED

Housing : Policy A4.

02 APR 1985

PRIME MINISTER

LARGE SCALE HOUSEHOLD SURVEY

You indicated that you would like a word with the Environment Secretary about this Survey. We have therefore set aside a few minutes after the meeting on teachers' pay tomorrow morning, which Mr. Jenkin will be attending.

Mark Addison

(MARK ADDISON)
1 April 1985

CF

BF 24/4.

Christopher Morton is preparing a note.
MCA 2/4

10 DOWNING STREET

Caroline

message from Paul Pegler (CST office) re meeting on 30 April 5.00 on housing policy.

As far as Murdo McLean is aware, the 2nd reading of Finance Bill should be on 29 April.

They can't be certain until after cabinet on 18 April.

CF.

JB 1/4

I have confirmed for 30 April. C. Sec. will have to send Rep. if req. CR 2/4

Prime Minister.

The Environment Secretary's proposal is at Flag A. Sir John Boreham's note, together with the Chief Secretary's, both opposing the proposal, are at Flags B, & C. Accept the Policy Unit advice not to agree to the survey?

MET 29/3

Yes mt

MR ADDISON

29 March 1985

LARGE SCALE HOUSEHOLD SURVEY

Patrick Jenkin proposes to spend £15 million on a new survey, in order to make distribution of rate support grant more accurate. This is astonishing, given that radical reform of the grant system is now on the cards. If the Prime Minister agrees to DoE's reform proposals on Sunday, there will be no need in future for such expensive surveys.

We recommend that no survey should be conducted.

Perhaps Patrick & I can have a word mt

OL

OLIVER LETWIN

Ref. A085/963

PRIME MINISTER

Large Scale Household Survey

I sent forward to you yesterday a minute by Sir John Boreham, suggesting that the Department of the Environment should not proceed with the Large Scale Household Survey proposed for 1986 by the Secretary of State for the Environment.

2. You will see from the attached copy of a letter from the Chief Secretary that he shares Sir John Boreham's doubts.

Approved by
ROBERT ARMSTRONG
and signed in his absence.

28 March 1985

B

Ref. A085/926

PRIME MINISTER

Review of Housing Policy

You asked for a review of housing policy by a group of senior officials under Cabinet Office chairmanship (Mr Gregson) to be completed by 31 March 1985. The report of the Group (MISC 113) is attached. It is covered by a note by the Chairman which summarises the main points and in paragraph 21 lists the issues for Ministers.

2. You had it in mind that the report would be considered by a meeting of Ministers under your chairmanship as soon as convenient after the Easter Recess.

3. I am sending copies of this minute and the attachment to the Lord President, the Secretaries of State for Scotland, Wales, the Environment and Social Services, the Chief Secretary, Treasury, the Minister without Portfolio and the Minister for Housing and Construction.

Approved by
ROBERT ARMSTRONG
and signed in his absence.

28 March 1985

P.M.

HOUSING POLICY

Note by the Chairman of the Official Group on Housing Policy (MISC 113)

The Official Group on Housing Policy was set up in January 1985 to undertake a review of housing policy and report to Ministers by 31 March 1985. During this period a number of major issues of housing policy have been under active consideration by Ministers, notably the future of Housing Benefit, proposals to deregulate the private rented sector and a revised scheme for Home Improvement Grants. Our task has been, in parallel with this activity, to take an overall look at housing policy, so as to provide a wider context for the current major policy discussions and to identify further policy issues requiring Ministerial consideration. Our report is attached. This note summarises the main points and, in paragraph 21, lists the issues for Ministers.

Objectives

2. Housing policy objectives must be set in the framework of the Government's overall social and economic policies. The Group identified the main social and economic considerations influencing housing policy (not necessarily in order of importance) as being -

Social

i. that enough dwellings should be available and affordable for those who might reasonably be expected to have a separate dwelling;

ii. that such dwellings should have certain basic amenities and be in a reasonable state of repair;

iii. that there should be an adequate supply of accommodation of special types for those with special needs (notably the disabled and the elderly);

iv. that the individual should have a choice as to buying or renting;

v. that the individual should have a sense of personal responsibility for, and pride in, his home;

Economic

i. that stable prices and lower taxes should be achieved through restraining monetary growth, reducing the PSBR as a proportion of GDP and controlling public expenditure;

ii. that obstacles should be removed to the free functioning of markets, including the housing and labour markets, through increasing competition and reducing monopoly;

iii. that the size of the public sector should be reduced and the ownership of capital assets widened.

Performance

3. Performance in relation to these objectives can be broadly summarised as follows -

a. There is no longer a national housing shortage. The relationship between the number of households and the number of dwellings is probably near balance overall, although there are some regional and local shortfalls (notably in London) and a shortage of accommodation at the extreme bottom end of the market.

b. Our housing conditions appear to compare well with those elsewhere in Western Europe in terms of basic amenities and over-crowding. There is however increasing concern about disrepair and structural defects.

c. The growth in the preferred form of tenure, owner occupation (now 60 per cent of all GB dwellings) has widened choice and increased the sense of personal responsibility.

d. The private rented sector is still tightly regulated and has continued to decline (9 per cent of GB dwellings).

e. The local authority rented sector (28 per cent of GB dwellings) is, though considerably smaller than in 1979, still large by international standards, has serious management problems and is not always responsive to the tenants' needs.

f. Although public expenditure on housing (GB capital and current, net of receipts from council house sales; cash) has fallen from £5.5 million in 1979-80 to a planned total of £3 billion in 1985-86, there has been an increase in Housing Benefit expenditure from £1.2 billion to £4.3 billion and in the value of mortgage interest tax relief from £1.43 billion to an expected £4.5 billion over the same period.

Future Strategy

4. The Group considered that the ideal strategy for improving performance in relation to the objectives in paragraph 2. above would be a market-related approach with the following elements -

i. to keep the amount of subsidy to the minimum, and to continue the trend of concentrating it on people rather than housing;

ii. to ensure that such subsidy is directed to those in greatest need;

iii. to minimise the extent to which subsidy conceals real costs and distorts choices;

iv. to promote so far as possible the free and smooth functioning of the market in houses whether for purchase or for rent;

v. to reduce so far as possible the involvement of the public sector in the actual provision of dwellings, while providing sufficient resources to cater adequately for its continuing involvement;

vi. to the extent that the public sector remains involved in the provision of housing, to promote high standards of management, cost-effectiveness and responsiveness to the needs of the consumer.

It was recognised that there were many obstacles to the full-scale application of this strategy in present circumstances. There are however opportunities to consider applying a more market-related approach, in relation to Housing Benefit, Home Improvement Grants, deregulation of the private rented sector, local authority rents and a number of issues of detail.

Owner Occupied Sector

5. The Group assume that Ministers will wish to continue the existing policies to promote home ownership, which seem likely to increase the proportion of owner occupation to around 70 per cent by the turn of the century. The main policy issues which arise are -

i. what more can be done to encourage take-up of Right to Buy by those with sufficient income;

ii. whether measures should be taken to extend home ownership further down the income scale of public sector tenants;

iii. whether measures should be taken to encourage council tenants to buy in the private sector;

iv. the future of the Homeloan Scheme;

v. the reform of Home Improvement Grants.

6. On 5i the Group propose measures to remove some of the disincentives to the sale of flats, a further examination of the implications of reducing the price asked for flats, study of a change in the cost floor for discount entitlement, and a reduction from 5 to 3 years in the period during which repayment of discount is required.

7. On 5ii the Group consider that it would be undesirable deliberately to promote home ownership for those unable on a continuing basis to meet the costs (interest payment, repair and maintenance) without substantial public subsidy. To do so would increase subsidies and public expenditure and would not foster meaningful personal responsibility for housing provision.

8. On 5iii the Group were not in favour of a general scheme because of the likely high deadweight cost, the risk of encouraging greater demand for council houses as a stepping stone into the private sector and the distorting effect on the market for private sector purchase. Two possible limited and discretionary schemes should however be studied further: one designed to release for letting dwellings not eligible for purchase under Right to Buy such as those for the elderly, handicapped and disabled; and the other confined to particular localities where there is a shortage of public sector rented accommodation.

9. On 5iv the Group recommend that Ministers should consider whether, in view of its low take-up, the Homeloan Scheme should now be wound up.

10. On 5v Ministers have been discussing a better targeted and less costly home improvements scheme.

Private Rented Sector

11. Ministers have accepted in principle that all new private sector lettings in England and Wales should be deregulated, although legislation has yet to be approved, pending further examination of the public expenditure implications.

Local Authority Sector

12. Existing policies already have the effect of reducing the size of the local authority sector. The main policy issues are -

i. how to ensure efficient management so that the residual need for local authority housing is met at minimum cost, and with greater satisfaction for the consumer;

ii. how to facilitate privatisation of vacant and difficult to manage local authority blocks and estates;

iii. local authority rent and subsidy policies.

13. In the interests of better management we recommend -

a. that the Housing Departments and the Treasury examine the desirability of further Government promotion of tenant management co-operatives, including the possibility of financial support for training and start-up expenses:

b. that further consideration should be given to whether and how far housing management should be included in the new competitive regime for local authority services when the results of the current public consultation are available.

14. In order to facilitate privatisation, particularly of vacant and difficult to let property we recommend -

a. that the Housing Departments and the Treasury study the merits and the public expenditure implications of group purchase of estates by tenants;

b that the Housing Departments give further consideration to the desirability of a statutory right for tenants, by a substantial majority, to require the sale of an estate to a private trust on which they would be represented;

c. that the Housing Departments and the Treasury should examine the scope for legislation to give individuals, groups and enterprises a right to demand that vacant local authority property be offered for sale on the open market.

15. The adoption of economic rents in the local authority sector would be an important step towards a more market related housing policy. It would remove subsidy from those local authority tenants who can afford to pay an economic rent. For all tenants, it would identify true housing costs more clearly. It would provide an additional incentive for better-off council tenants to become owner occupiers. There would however be a considerable increase in Housing Benefit for those tenants eligible for support. The Group recommend

that, when decisions have been taken about the reform of Housing Benefit, Ministers should consider, on the basis of the options set out in the Report of the Interdepartmental Committee on Local Authority Rent and Subsidy Policy, whether and how local authority rents should be raised to levels providing an economic rate of return.

Voluntary Sector

16. The Housing Association movement, which is particularly concerned with housing for those with special needs, has expanded with grant assistance from the Government and now owns 2.5 per cent of dwellings in England (1.4 per cent in Wales and 1.7 per cent in Scotland). Housing Association Grant averages about 85% of costs of new building for fair rent. It is desirable to see whether the role of the Housing Associations can be maintained at lower cost in terms of the amount of subsidy provided to them and their tenants.

17. The Group therefore recommend that -

i. in the light of decisions on local authority rent policy the Housing Departments and the Treasury should examine rental policy in the voluntary sector;

ii. the Housing Departments and the Treasury should continue to explore the scope for introducing more private finance into Housing Association operations.

Housing and Labour Mobility

18. Housing policy can make a useful, although not decisive contribution to improving labour mobility. Although the available statistical information is out of date and incomplete it is clear that -

i. a revival of the private rented sector could help job mobility;

ii. long distance mobility is particularly difficult to achieve in the local authority sector;

iii. since owner occupation is increasingly the dominant form of tenure, it is particularly desirable to make it simpler and less costly to buy and sell houses;

iv. higher housing costs in the South East discourage mobility into that area.

19. Many of the measures proposed in other sections of the Report will help to improve labour mobility. In addition the Group recommend that Ministers give further consideration to -

i. ways of reducing restrictions on new housing developments in areas where jobs are being created, eg by ensuring that Structure Plans, especially in the South East, take full account of market demand, employment growth and labour mobility;

ii. the recommendations of the Interdepartmental Group on Simplifying Housebuying and the 2nd Report of the Farrand Committee;

iii. so far as economic and financial circumstances allow, the structure of stamp duty on housing transactions.

Issues for Ministers

20. Ministers will be separately determining future policy on Housing Benefit, Home Improvement Grants and deregulation of the private rented sector.

21. The following issues for Ministers are raised in this report -

i. whether the social and economic objectives influencing housing policy listed in paragraph 2 of this note are endorsed;

ii. whether it would be desirable to move as far as possible towards a market-related approach to housing policy on the lines set out in paragraph 4 of this note;

iii. whether steps should be taken to encourage take-up of Right to Buy by those with adequate incomes on the lines proposed in paragraphs 4.5 to 4.9 of the Report (removal of disincentives to sale of flats, examination of flat prices, possible change in cost floor for discount entitlement, reduction in discount repayment period from 5 to 3 years);

iv. whether the Government should refrain from measures to promote home ownership by those requiring continuing state income support (Report paragraphs 4.10 to 4.12);

v. whether any study of incentives to actual or potential council tenants to purchase private sector dwellings should be confined to two possible limited schemes, one designed to release purpose-built dwellings for the elderly, handicapped and disabled, and the other related to particular localities where there is a shortage of public sector rented accommodation (Report paragraphs 4.13 to 4.17);

vi. whether the Homeloan Scheme should now be wound up (Report paragraphs 4.18 to 4.19);

vii. whether; in the interests of better management of local authority estates:

a. the Housing Departments and the Treasury should examine the desirability of further Government promotion of tenant management co-operatives, including the possibility of financial support for training and start-up expenses;

b. further consideration should be given to the inclusion of housing management in the new competitive regime to be applied to other local authority services when the results of the current public consultaton are available.

(Report paragraphs 6.12 and 6.15);

viii. whether, in order to facilitate privatisation, particularly of vacant and difficult to let property:

a. the Housing Departments and the Treasury should study the merits and public expenditure implications of group purchase of estates by tenants;

b. the Housing Departments should give further consideration to the desirability of a statutory right for tenants, by a substantial majority, to require the sale of an estate to a private trust on which they would be represented.

c. the Housing Departments and the Treasury should examine the scope for legislation to give individuals, groups and enterprises a right to demand that vacant local authority property be offered for sale on the open market;

(Report paragraphs 6.16 to 6.20);

ix. in the light of the decisions on Housing Benefit, whether local authority rents should be raised to levels providing an economic rate of return (Report paragraphs 6.23 to 6.25);

x. in the light of decisions on local authority rents policy, whether rents in the voluntary sector should be raised to levels providing an economic rate of return (Report paragraphs 7.7 to 7.8);

xi. whether the Housing Departments and the Treasury should continue to explore the scope for introducing more private finance into Housing Association operations (Report paragraph 7.9);

xii. whether, with a view to promoting labour mobility, further consideration should be given to:

a. reducing restrictions on new housing developments in areas where jobs are being created, eg by ensuring that Structure Plans, especially in the South East, take full account of market demand, employment growth and labour mobility;

b. the recommendations of the Interdepartmental Group on Simplifying Housebuying and of the 2nd Report of the Farrand Committee;

c. the structure of stamp duty on housing transactions.

(Report paragraphs 8.9 and 8.11).

P L GREGSON

27 March 1985

REPORT OF THE OFFICIAL GROUP ON HOUSING POLICY (MISC 113)

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SECTON 1: INTRODUCTION

1.1 Following the Cabinet's discussion of public expenditure on housing on 8 November 1984, the Prime Minister decided that there should be a review of housing policy by officials, who were asked to report to Ministers by 31 March 1985. The Official Group on Housing Policy (MISC 113) was accordingly set up in January 1985. The following Departments were represented under the chairmanship of the Cabinet Office -

No 10 Policy Unit
HM Treasury
Scottish Office
Welsh Office
Department of the Environment
Department of Health and Social Security
Enterprise Unit

1.2 The Group have taken account of studies which have recently been undertaken, and Ministerial discussions in progress, on a number of housing policy issues, notably the future of housing benefit, proposals to deregulate the private rented sector, and the revised scheme for home improvement grants. A fuller list of these related matters is in Annex A.

1.3 The structure of the Group's report is as follows. Section 2 describes the objectives of present housing policy, the instruments used to attain them, costs and performance so far. Section 3 discusses future strategy. The remainder of the report considers individual sectors of the housing market in detail. Sector 4 examines the owner occupied sector; Section 5 the private rented sector; Section 6 the local authority sector and Section 7 the voluntary sector. Section 8 considers the question of labour mobility.

SECTION 2: OBJECTIVES INSTRUMENTS AND PERFORMANCE

2.1 The 1983 Conservative Party Manifesto had the goal of making Britain "the best housed nation in Europe". It contained two main policy commitments: the further extension of home ownership; and the revival of the private rented sector . It also promised to extend the Tenants' Charter to enable tenants to carry out their own repairs, that Home Improvement Grants would continue to play an important role, consultation on proposals to extend the role of building societies and an overhaul of building society legislation.

2.2 The objectives of housing policy must be set in the framework of the Government's overall social and economic policies. The main social and economic considerations which have influenced housing policy in recent years are (not necessarily in order of importance) as follows -

Social

i. that enough dwellings should be available and affordable for those who might reasonably be expected to have a separate dwelling;

ii. that such dwellings should have certain basic amenities and be in a reasonable state of repair;

iii. that there should be an adequate supply of accommodation of special types for those with special needs (notably the disabled and the elderly);

iv. that the individual should have a choice as to buying or renting;

v. that the individual should have a sense of personal responsibility for, and pride in, his home;

Economic

i. that stable prices and lower taxes should be achieved through restraining monetary growth, reducing the PSBR as a proportion of GDP and controlling public expenditure;

ii. that obstacles should be removed to the free functioning of markets, including the housing and labour markets, through increasing competition and reducing monopoly;

iii. that the size of the public sector should be reduced and the ownership of capital assets widened.

2.3 The main policies which have been followed by the Government in pursuit of these broad objectives are set out below on a sector by sector basis. A more detailed account is given in the sections dealing with individual sectors.

2.4 In the owner occupied sector, these policies have been:

a. widening access to home ownership;

b. encouraging local authority, New Town, Scottish Special Housing Association and Housing Association (HA) tenants to buy their homes by Right to Buy (RTB) sales at discount;

c. increasing the financial attractiveness of home ownership through Mortgage Interest Relief (MIR); preferential Capital Gains Tax treatment; and reductions in Stamp Duty;

d. promoting low-cost home ownership (LCHO) schemes;

e. making available Home Improvement Grants, both to maintain the conditions of the private sector stock generally, and to support home ownership among the less well off;

f. simplifying and cheapening house purchase;

g. by providing Supplementary Benefit to cover mortgage interest payments for the temporarily unemployed and retired;

2.5 In the Private Rented Sector consideration is currently being given to deregulation of all new lettings.

2.6 Local authorities are free to decide the distribution of their resources both between and within services. The Government can seek to influence, but not determine, actual spending patterns. This influence has been exercised in the following directions:

a. reducing the size of the sector through -

i. RTB sales to existing tenants;

ii. sales of vacant and/or rundown land and housing;

iii. limiting new build to the provision of accommodation for those with special requirements or whose needs cannot be met in the private sector;

b. reducing the public expenditure costs, by -

i. increasing rents, which are now substantially higher than in 1979, but are still well below economic levels (largely offset by increased Housing Benefit);

ii. increased sales of assets (including under a.i. and ii. above);

iii. reducing Government grants;

iv. increasing pressure on local authorities to be more efficient, eg through Rate Support Grant and capital controls;

c. encouraging local authorities, within the resources available, to concentrate resources on the repair and improvement of the existing stock;

d. promoting better management of council estates, eg through the Priority Estates Project;

e. increasing tenants' freedom of choice and assisting mobility, eg through the Tenants' Charter, National Mobility Scheme and Tenants Exchange Scheme.

2.7 In the voluntary sector, these policies have been:

a. sustaining the role of Housing Associations (HA) relative to local authorities as providers of cheap rented accommodation for those with special needs and low incomes, particularly in deprived inner city areas, by the provision of Housing Association Grant;

b. building on the innovative work of HAs in developing LCHO;

c. Right to Buy.

The Cost of Housing Policy

2.8 Public expenditure on housing is set out in the PESC housing programmes for England, Scotland and Wales which are summarised together at Annex B. Other public expenditure is related mainly to the rent rebates and rent allowances elements of Housing Benefit which are included in the DHSS public expenditure programme. In addition, housing policy causes other costs to public funds, for example tax expenditures and other forms of cost, including notional costs, which can broadly be regarded as subsidies to housing.

2.9 In considering the various expenditures and subsidies in relation to housing a significant distinction can be made between:

i. expenditures by local authorities, the Scottish Special Housing Association, Housing Associations and New Towns in providing housing in a way and at rents determined primarily by public sector policy and supported by subsidies from central government and rate fund contributions, and

ii. subsidies and grants etc direct to individuals to assist with their housing costs, notably through Housing Benefit for public and private renters and through mortgage interest tax relief for owner-occupiers.

2.10 Under present policies it is broadly true to say that reductions in subsidies to providers of housing (i. above) can give rise to increased demands for subsidies to individuals (ii.) although this is subject to possibilities of increased efficiency and savings.

2.11 In recent years public expenditure (net of receipts from council house sales) both capital and current has fallen in Great Britain from £5.5 billion in 1979-80 to a planned total in 1985-86 of £3 billion (all in cash terms; from £8.7 billion to £3 billion in 1985/86 prices) as set out in Annex B. During this period gross provision for housing capital expenditure by local authorities, New Towns and the Scottish Special Housing Association has fallen by 38% in real terms. Within this total the proportion spent on renovation has risen (from 31% to 55%) while that spent on new building has fallen (from 53% to 32%). This mainly reflects the effects of higher council rents and of increases in capital receipts from the sale of council houses. The subsidies to individuals have however increased markedly. Housing Benefit, including rate rebates will increase from £1.2 billion to £4.3 billion over the same period and, on unchanged policies, is planned to be £4.75 billion by 1987-88. (The respective figures in 1985/86 prices are £1.9 million, £4.3 billion and £4.4 billion.) This is partly the result of unemployment but partly also the result of increases in local authority rents referred to above and to that extent is a switch in the form of subsidy.

2.12. The value of mortgage interest tax relief in Great Britain has increased from £1.43 billion in 1979-80 to an expected £4.5 billion in 1985/86 and is projected to increase, depending on interest rate assumptions, to some £5 billion by 1987-88. (The 1985/86 prices figures are £2.3 billion; £4.5 billion and £4.7 billion) In relation to this, the numbers of mortgages from building societies and local authorities has increased from 5.9 million in 1979 to 6.5 million at the end of 1983. The economic subsidies involved are more fully discussed in Annex A to the Report of the Interdepartmental Committee on Local Authority Rent and Subsidy Policy (RASP).

2.13 In addition to the subsidised rents enjoyed by local authority tenants the effect of present housing policies on the private rented sector creates a notional subsidy from private sector landlords to their tenants. This arises from the fact that registered "fair rents" are below the more economic level that would be provided by a free market. The notional subsidy was estimated to be £275 million in 1983-84, a figure which reflects the relatively small size of the private rented sector following many years of decline, but not the full distorting effects of rent controls.

Performance

2.14 Performance in relation to the objectives set out in paragraph 2.2 above is discussed below under the following headings -

a. availability of dwellings;
b. standards of accommodation;
c. choice, and personal responsibility;
d. the contribution to economic objectives.

Availability

2.15 The 1981 Census showed there to be a crude surplus of nearly 700,000 dwellings over households. Within this overall surplus allowance needs to be made for dwellings not available for use as main residences because they are used as second homes or holiday accommodation, or are vacant while being sold or renovated. Annex C shows that there are also considerable regional variations within an overall surplus in England and Wales of about 50,000 dwellings. Some at least of this surplus (and the balance) will consist of houses in poor condition or in the wrong places.

2.16 After allowing for sharing households and concealed families not wanting separate accommodation, it is reasonable to conclude that nationally there was a broad balance between households and dwellings in 1981. This compares with a shortfall of about 300,000 in 1971 and 600,000 in 1961. Data are not available for a full regional split; but very roughly the national surplus of some 50,000 available dwellings can be taken to consist of a 50,000 deficit in London, balance in the rest of the South of England, and a surplus of 100,000 in the Midlands, North and Wales.

2.17 What has happened to the balance between dwellings and households since 1981 is not known for certain, because although the increase in the number of dwellings in England and Wales has been estimated by the Housing Departments at an average of about 153,000 a year, there are no corresponding figures for the actual increase in the number of households. The projected average annual increase between 1981 and 1991 in the number of households, however, is about 167,000. It is therefore unlikely that there has been any further improvement in the balance as estimated in 1981; if anything, it is likely to have deteriorated.

2.18 Although nationally the relationship between households and dwellings is thought to be not far from balance, there has been an increase both in the various statistics on homelessness and the public expenditure costs of dealing with it. For example the number of households accepted as homeless by local authorities in England in 1978 (the first year of the Housing (Homeless Persons) Act) was 53,000; in 1981 70,000; and in the first half of 1984 83,000 (annual rate). The statistics are difficult to interpret and cannot be used as a simple indication of the adequacy of the number of dwellings. The increase in homelessness defined in this way may be partly explained by the reduction in lettings of parts of houses by private landlords both resident and non-resident. The crude balance or near balance between households and dwellings may therefore conceal a growing shortage of accommodation at the extreme bottom end of the market.

Standards of Accommodation

2.19 On such comparative information as is available (see Annex D) Britain already has a claim to be "the best housed nation in Europe" in terms of basic amenities and the ratio of household size to size of dwelling.

2.20 There has been a marked improvement in basic standards. The proportion of households living in dwellings that were unfit or lacking basic amenities fell from over 50 per cent in 1951 to just 8 per cent in England, 12 per cent in Wales in 1981. The nature of the problem has changed. In the 1930s and 1950s physically sub-standard housing consisted of pre-1870 slums that were unfit (by the standards of the 1930 and 1954 legislation) from their date of construction, and pre-1914 housing that was sanitary, but with neither bathroom nor hot water system, and only an outside lavatory. The current problems are of repair and modernisation. In the public sector, estates that because of their design or condition are unsatisfactory and unpopular, even though the flats and houses there have all the basic amenities, tend to generate a spiral of social problems which impose signficant costs on the social and other services.

2.21 Within the public sector there is increasing concern about the condition of the ageing pre-war and early post war stock, and the emerging problem of defective dwellings of relatively recent construction. The full cost of remedying such structural faults is not yet clear. The cost of repairing 150,000 pre-fabricated reinforced concrete houses in local authority ownership alone will be about £1.5 billion and heavy expenditure on the repair of other defective dwellings is foreseen by local authorities. The 1981 English and Welsh House Condition Surveys showed that there were serious problems of disrepair in the owner - occupied sector, although the highest proportion of unsatisfactory housing is in the private rented sector, (where landlords often have little incentive to improve conditions because of rent regulation). The 1986 survey, to be published at the end of 1987 or early in 1988, will give an updated picture.

2.22 The households most likely to live in houses in poor condition include: elderly people, both owner-occupiers and tenants of commercial landlords; and poorer people in all sectors. Poor housing is associated with a higher incidence of some illnesses, and although the relationship is complex unsatisfactory housing can be expected to contribute to pressures on social and health services.

Choice and Personal Responsibility

2.23 Attitude surveys suggest that owner-occupation is the overwhelmingly preferred tenure. In England owner-occupation has increased from 57 per cent of dwellings in March 1979 to 63 per cent by September 1984; the comparable figures are an increase from 59 per cent to 65 per cent in Wales and from 34 per cent to 39 per cent in Scotland. This suggests that individuals' choices are increasingly being met and in a way which fosters personal responsibility. Within the rented sector there has however been a marked decline in private renting (from 31 per cent of all households in 1961 to less than 10 per cent now in England and Wales and from 24per cent to 7 per cent in Scotland).

Contribution to Economic Objectives

2.24 Although, as paragraph 2.11 above explains, net public expenditure on the housing programmes in the narrow sense has decreased substantially and is expected to decrease further, there has been a substantial increase in help to individuals with rent and rebates and in tax relief for mortgage interest. The provision of housing is very far from a freely functioning market. Although monopoly has been reduced (the proportion of local authority dwellings has fallen from 29 per cent in 1979 to 25 per cent in 1984 in England, from 29 per cent to 25 per cent in Wales and from 45 per cent to 43 per cent in Scotland) public sector involvement in the provision of housing is still substantially greater than in most other countries in Western Europe. The decline of private renting may contribute to inadequate labour mobility: this is discussed more fully in Section 8 of the Report.

Assessing Programme Performance

2.25 The elements of the housing public expenditure programme are subject to annual review under the system of Performance Review Reports (PRR) operated for all DOE programmes. The Treasury are consulted in the preparation of the PRRs.

2.26 About half of the net expenditure which falls on the housing programme is incurred by local authorities. The White Paper on Financial Management in Government Departments (Cmnd 9058) recognized that in the case of such services it is the local authorities themselves who are responsible for providing them economically, efficiently and effectively. Ministers need nevertheless to monitor all public expenditure on housing, including that incurred by local authorities, in order to assess its value for money and thus take an informed view in exercising their own responsibilities, especially in allocating resources and spending voted monies. We are assured that the Housing Departments, in consultation with the Treasury, will continue to develop a framework of suitable indicators which will enable informed assessments to be made at appropriate regular intervals of the cost effectiveness of housing policy instruments in the light of changing conditions.

SECTION 3: FUTURE STRATEGY

3.1 Before examining housing policy in detail the Group considered what would in theory be the ideal strategy for the Government to follow in seeking to attain the policy objectives set out in paragraph 2.2 of the Report. The basic assumption behind this analysis is that the best use of resources in housing, as in other areas of activity, is likely to arise if the market is enabled to operate as freely as possible and if distortions are reduced to a minimum.

3.2 The Group acknowledged that for the foreseeable future, as in the past, a section of the population will be unable from their own resources to meet the economic cost of housing at the lowest standard which would be socially acceptable. An element of subsidy will therefore need to be provided for some considerable time. In line with its social and economic objectives the Government is likely however to want -

i. to keep the amount of subsidy to the minimum, and to continue the tread of concentrating it on people rather than housing;

ii. to ensure that such subsidy is directed to those in greatest need;

iii. to minimise the extent to which subsidy conceals real costs and distorts choices;

iv. to promote so far as possible the free and smooth functioning of the market in houses whether for purchase or for rent;

v. to reduce so far as possible the involvement of the public sector in the actual provision of dwellings, while providing sufficient resources to cater adequately for its continuing involvement;

vi. to the extent that the public sector remains involved in the provision of housing, to promote high standards of management, cost-effectiveness and responsiveness to the needs of the consumer.

3.3 This might be described as a market-related approach to housing policy. There are many obstacles to the full-scale application of such an approach in present circumstances. There are many who cannot pay the economic cost of adequate housing; the numbers on Supplementary Benefit have increased from around 2 million in 1963 to some 4 million in 1983, largely as a result of recent higher levels of unemployment. There has been a long tradition of providing subsidy related to bricks and mortar, through municipal housing, rather than to individuals. The controls placed on private renting through many decades coupled with the incentives to home ownership have caused it to decline so far that its revival and substantial expansion will be difficult to achieve. Housing Benefit, although related to people rather than housing, has grown to a scale where it is exercising a significant influence on the housing market.

3.4 There are nevertheless many areas of housing policy, most of them already under consideration by Ministers, where opportunities exist to consider applying a more market-related approach. The main issues which arise are -

in relation to Housing Benefit

- how far eligibility should extend up the income scale;

- what proportion of rent and rates should be covered by benefit;

in relation to home improvement policy

- how to target subsidy more effectively on those most in need, and whether, in whole or in part, to replace grants with loans;

in relation to the private rented sector

- proposals for deregulating new lettings;

in relation to the local authority sector

- whether and how rents should be increased to levels yielding an economic rate of return;

- proposals for improving management and increasing tenant involvement;

in relation to the voluntary sector

- proposals to reduce the amount of subsidy.

3.5 The remaining sections of the Report consider housing policy in more detail in each of these sectors, particularly the scope for a more market-related approach.

SECTION 4: THE OWNER OCCUPIED SECTOR

4.1 On the basis of present trends and policies home ownership in Great Britain should continue to rise from the present 60 per cent of households to around 70 per cent by the end of the century. This is high compared for example with France (51 per cent) and West Germany (40 per cent) but survey evidence suggests that it is less than potential demand: 78 per cent (89 per cent among those aged under 55).

4.2 The forecast of 70 per cent or so home ownership by the end of the century assumes that everyone with the financial means to become an owner occupier will have done so. It also assumes the continuation of the present private sector lending policies which largely limit mortgage loans to people in full time work with reasonably stable incomes. A higher rate of income growth than projected would enable the forecast to be exceeded. On the other hand, land scarcity and high house prices and mortgage interest payments relative to earnings would retard the growth of home ownership. There is some evidence that, particularly in the more favoured parts of the country, the price and availability of land for new private housebuilding is restricting the output of new dwellings at the lower end of the market and reducing the scope for trading up which would release lower priced accommodation. This is discussed in more detail in section 8, on labour mobility.

4.3 The promotion of home ownership helps to provide what most households want. It is assumed that the Government will wish to continue to encourage home ownership energetically on the basis of present policies - by giving effect to the concept of market demand in the planning system, by further publicity, as appropriate, for the Right to Buy, and by encouraging the reduction of the initial costs of home ownership, for example by the "low-start" mortgage and shared ownership arrangements described in Annex E. On the other hand, additional bank and building society lending to finance a long run increase in owner occupation could have adverse monetary consequences, although this would be mitigated if receipts from council house sales were used to reduce public borrowing.

4.4 The main current policy issues relating to home ownership are as follows -

i. what more can be done to encourage take-up of Right to Buy by those with sufficient income;

ii. whether measures should be taken to extend home ownership further down the income scale of public sector tenants;

iii. whether measures should be taken to encourage council tenants to buy in the private sector;

iv. the future of the Homeloan Scheme;

v. the reform of Home Improvement Grants.

Encouraging Take-Up of Right to Buy (RTB) by those with Sufficient Incomes

4.5 Since March 1979, 748,000 public sector dwellings in Great Britain have been sold to sitting tenants - about 11 per cent of the 1979 stock. (The figures for England are 639,000 dwellings and 11 per cent of the stock; for Scotland 66,000 dwellings, or about 6% of the stock; for Wales, 44,000 dwellings or 14% of the stock.) Sales over the 4½ years since RTB was introduced will now have accounted for most of the easier sales to those in the more desirable houses and with the strongest wish to buy. However, the Department of the Environment estimate that at the end of 1984 there are still some half a million tenants in England alone with sufficient income to buy under the current RTB rules and with no strong reasons for not going ahead, such as their dislike of their present homes. Other than through well targeted promotional publicity, we have identified three areas of action to encourage these tenants to exercise RTB -

a. removal of disincentives to the sale of flats;

b. the cost floor for discount entitlement;

c. the period during which repayment of discount is required.

Flats

4.6 Thirty per cent of council tenants live in flats. So far only a small number of flats have been sold under RTB (1½ per cent of those available compared with 17 per cent in the case of houses). There are a number of factors which deter tenants of flats from exercising RTB and to the extent that some of them are based on attitudes, eg towards privacy, fellow tenants and the belief that flat ownership is a second rate option, they are difficult to counter. However, there is evidence that a factor which deters some tenants from buying is the uncertain commitment represented by the variable service charge (this is exploited by some local authorities opposed to RTB) and by the liability for any structural defects notified for purchase. We recommend the adoption of the following measures which are already in mind for legislation in the coming Session:

i. a limitation on the ability of local authorities to increase service charges;

ii. a limitation on purchasers' liability to meet the cost of remedying structural defects in flats.

4.7. There may be other factors, for example the price at which flats are offered, where there is scope for cost-effective changes which might accelerate the rate of flat sales. We recommend that the Housing Departments and the Treasury continue to study the scope for further changes in the rules governing the sale of flats, including the implications of measures to reduce the price at which they are offered.

Cost Floor

4.8 The "cost floor" places a limit on tenants' discount entitlement under RTB by requiring that dwellings which have been constructed, acquired or substantially improved since March 1974 cannot be sold at a price net of discount which is less than the cost of construction etc, where that was more than £5,000, (although the rule was modified last summer to exclude capitalised repairs from the limitation of discount.) The effect is to exclude an unknown number of recently built and improved houses. Abolition of the rule would not necessarily extend RTB further down the income scale. We recommend that the public expenditure and Accounting Officer implications of changes to the cost floor should be examined by the Housing Departments and the Treasury.

Discount Repayment

4.9 The present discount rules require repayment of discount, subject to an annual 20 per cent reduction, during the 5 years following purchase. The main benefits of reducing the repayment period to, say, three years would be to lessen a disincentive to the exercise of RTB and effect some increase in mobility for recent purchasers wishing to move house and buy elsewhere. There could be criticism of purchasers being given a windfall gain. On the other hand, repayment of improvement grants is no longer required within 5 years. Treasury Ministers suggested this change during the passage of the Housing and Building Control Bill but it was not pursued because of handling difficulties in the House of Lords. We recommend that a reduction in the repayment period to three years should be made in any future Housing Bill.

Extending Home Ownership Further down the Income Scale

4.10 Home ownership has already penetrated quite deep into low income groups. Thirty one per cent of households in the bottom quartile of the national incomes distribution are now owner occupiers, compared with 28 per cent in 1980. The proportion of low income owner occupiers with mortgages rose from 1 in 9 to 1 in 6 over the same period. It would be possible to encourage home ownership by low income groups still further by -

i. extending the scope of Housing Benefit to cover mortgage interest payments, and relaxing the restrictions on the amount of mortgage allowed for Supplementary Benefit assessment;

ii. relaxing the RTB rules by -

a. legislation to allow rents to be converted into mortgage payments;

b. allowing Housing Benefit and Supplementary Benefit to count as income for mortgage entitlement.

Ministers are considering separately as part of the social security reviews the issues at i.. This report is concerned only with the issues at ii..

4.11 Under the option at ii.a., any public sector tenant who had paid rent for 30 years or more would acquire his home free of further payment. Other tenants would make mortgage repayments at the level of their present rent until they reached the 30 year point. Tenants would assume full responsibility for repairs and maintenance, and, in the case of flats, service charges. Under the option at ii.b., new regulations would be made so that Housing Benefit and Supplementary Benefit payments would no longer be disregarded for the purpose of assessing mortgage entitlement under the RTB mortgage rules.

4.12 The main problem about both proposals is that they risk drawing into home ownership householders who may not be able to meet the costs associated with it (repair and maintenance as well as mortgage interest payments) except on the basis of permanent income support from the state. This would run counter to one of the objectives of extending home ownership, that of fostering an individual's sense of personal responsibility for the house he lives in. Nor would public expenditure necessarily be reduced. The majority of the Group therefore recommend against measures to promote home ownership by those requiring continuing state income support.

Encouraging Public Sector Tenants to Buy in the Private Sector

4.13 Substantial numbers of council tenants do not consider buying under RTB because they dislike their present home or its surroundings or both. In 1983 some 60,000 moved away to buy houses in the private sector. Such moves release accommodation either for reletting (thus reducing the pressures for new build) or for sales to the private sector. It is estimated that there are some 350,000 tenants who would would not buy their present homes and could not afford private purchase unaided, but would consider buying privately if purchase terms equivalent to RTB were available.

4.14 The Group considered three possible schemes of assistance -

i. a mandatory scheme limited to occupants of dwellings not eligible for RTB, such as those for the elderly, handicapped and disabled (including possibly some tenants of Government funded Housing Association dwellings);

ii. an unrestricted (but discretionary) scheme;

iii. a scheme applicable only in certain defined circumstances, eg to facilitate disposals or in areas of high pressure on accommodation.

4.15 We saw attraction, in principle, in option i. as a means of releasing dwellings in the special needs category for re-letting. In practice however take-up by these tenants would be low and this is not a measure to which high priority should be attached. We recommend that the Housing Departments, the Department of Health and Social Security and the Treasury should study the scope for a cost-effective scheme on these lines.

4.16 The Group saw serious objections to option ii.. There would be a real risk of undermining RTB sales by appearing to offer tenants a more attractive option. It would accentuate the creation of public sector ghettos, where the poorest tenants lived in the worst housing. If it were successful in significantly increasing the numbers of first time buyers on the market it would, at least in the short term, lead to an increase in house prices which might squeeze out other first time buyers. There would be a high degree of deadweight expenditure.

4.17 The Group considered that the arguments relating to option iii. were more evenly balanced. A scheme with carefully drawn criteria but operating at the discretion of public landlords might help to ease the shortage of public sector rented accommodation in particular localities. A limited scheme of this kind would be less open to the objections in paragraph 4.16. We therefore recommend that a discretionary scheme applicable only in localities meeting defined criteria should be examined further.

Homeloan Scheme

4.18 The Homeloan Scheme, which was launched in 1978, and gave its first assistance in 1980, offers first time buyers a loan of £600, interest free for up to 5 years, and a savings bonus of up to £110. Buyers have to register under the scheme at least two years before benefiting, and the houses they buy must be below specified regional price limits, designed to restrict the scheme to two-thirds of first time buyers.

4.19 The scheme has achieved only a 1 per cent market share among first time buyers, despite it being available to up to two-thirds. Its net cost per year is currently £2.3 million. The low take-up is thought to be partly a result of the requirement to register at least two years before buying, and partly the relatively low level of benefits. There would be presentational difficulties in withdrawing the one scheme designed to benefit first time buyers. Nevertheless, we recommend that Ministers should consider whether the Homeloan Scheme should now be wound up.

Home Improvement Policy

4.20 In 1981 almost 25 per cent of owner occupied houses in England and Wales were estimated to need substantial improvements or repair, with 5-6 per cent needing major repair. Thirteen per cent of inter-war private sector dwellings in Scotland are considered to need repairs costing over £5,000, and 3.5 per cent of the total stock fall below the Scottish Basic Tolerable Standard.

4.21 Home Improvement Grants were designed to deal with this problem. If the housing stock is not adequately maintained, there will in the longer run need to be greater use of national resources to restore or replace it. Since there are many householders who are genuinely unable to afford the necessary repairs, Home Improvement Grants have been made available on the grounds that it is more cost effective to provide assistance in this way than to let the stock deteriorate to the point where major public expenditure might be called for. The present scheme is however open to several objections. A third of those eligible in England could afford to pay for the work themselves, while about 150,000 owner occupiers who cannot are ineligible.

4.22 Ministers have therefore been discussing a revised scheme, which would be consistent with a more market-related approach to housing policy. Assistance would be better targetted on low income groups; it would be concentrated on minimum acceptable standards where there is clearer justification for state involvement; and the use of loans rather than grants in certain cases would lead to reduced public expenditure and greater personal responsibility.

SECTION 5: THE PRIVATE RENTED SECTOR (PRS)

Present Situation

5.1 As recently as 1961, 4.5 million households in England and Wales - 31 per cent of the total - lived in private rented accommodation. That figure is now down to around 1.7 million, less than 10 per cent, and is still falling by about 70,000 households a year. In Scotland, the PRS has shrunk to around 6-7 per cent of households, 30 per cent of which is furnished accommodation. New construction for renting has virtually ceased and many landlords, on gaining vacant possession, prefer to sell for owner-occupation, or even to leave property vacant, rather than to re-let. This is in marked contrast to the position in France and West Germany, where the PRS accounts for 29 and about 40 per cent respectively of households.

5.2 There are various reasons for this decline. Changing social attitudes, particularly the growing preference for owner occupation, have had an important impact. But there is no doubt that the Rent Acts controls have been a major factor. "Fair rents" do not provide landlords with a return comparable to that which they could obtain elsewhere; the average net return in England and Wales is below 3 per cent.

5.3 Yet demand for private rented accommodation remains unsatisfied, far exceeding the supply in some parts of the country, especially London. While the number of families looking to the PRS has declined, it remains an important source of accommodation for certain groups - the young, the single, those who cannot afford or do not want to buy, and the mobile. If the PRS's decline cannot be reversed, or at least halted, the public and voluntary sectors will be put under greater pressure.

The PRS and the Market Related Approach

5.4 It is clear that deregulation of the PRS would be an important feature of a more market-related approach. It would minimise the present bureaucratic apparatus needed to enforce the Rent Acts. It would lead to a freer market, more responsive to need and with a greater degree of choice. It would end subsidisation of private tenants by their landlords, and establish a market price for private rented accommodation. To the extent that the size of the

PRS grew as a result, labour mobility and hence employment would be facilitated. On the other hand there are likely to be public expenditure costs, at least in the short run, in so far as rising rents were to lead to greater calls on Housing Benefit. In the longer term, there is the prospect of PSBR reductions as a result of increased tax take from landlords and a reduction in the MIR which would otherwise have been given on accommodation moving out of the PRS into owner occupation.

5.5 Ministers have accepted in principle that all new lettings in England and Wales should be deregulated, although legislation has yet to be approved. If the proposals are carried through to legislation, proposals for Scotland will follow. In principle, it would be desirable also to deregulate existing lettings, since existing tenants will continue to benefit at the expense of their landlords, and there would be increasing disparities between the position of existing landlords and their tenants, and new landlords and their tenants. There might also be an effect on labour mobility, because of the cost penalty existing tenants would face in moving to deregulated accommodation. However such action would be highly controversial, difficult to justify, lead to considerable disruption and have unacceptably high public expenditure costs.

5.6 Deregulation should reduce considerably the flow of accommodation out of renting into the lower end of the owner-occupied market. A substantial amount of accommodation which is at present unoccupied or under-used could become available for letting. If the sector is to expand significantly new build or purchase from owner-occupation will be needed (developers who purchase rundown or vacant local authority housing do so for sale into owner occupation). However, the financial attractions of home ownership will limit the scope for expansion of the PRS by that route. The extent of new building for rental depends on landlords' returns and rent levels after deregulation, the tax treatment of landlords and perceptions about the stability of the new regime. The public expenditure implications depend on movements in rent levels, any changes to the level and structure of Housing Benefit; and the response of landlords and tenants to the new situation.

SECTION 6: THE LOCAL AUTHORITY SECTOR

6.1 Existing policies have the effect of reducing the size of the local authority sector. Ministers have made it clear that one of their priorities is to concentrate public resources within the housing programme on capital provision for those in greatest need; and that public authorities should only add to the exisiting stock where it is necessary to accommodate those whose needs cannot be met in the private sector.

6.2 The present rate of new build in England is about 35,000 dwellings a year, in Scotland 2,300 and in Wales 1,700. Depending on assumptions made about the rate of household formation (which may be influenced by the availability of accommodaton), the increase in owner occupation, developments in the private rented sector, and the extent of "special needs", there may be a shortfall for the remainder of the 1980s, although thereafter demographic trends will lead to a further fall in the need for residual new build. On the Department of the Environment's assumptions their view is that the shortfall in England in the remainder of the 1980s could be as much as 25,000 a year; some others in the Group do not accept all of these assumptions. Any potential gap in Scotland and Wales would be smaller.

6.3 In view of these uncertainties Ministers collectively decided in the last public expenditure round that in current economic circumstances a substantially lower provision for public sector new build was all that could be justified.

6.4 The main policy issues considered in the remainder of this Section are -

i. how to ensure efficient management so that the residual need for local authority housing is met at minimum cost, and with greater satisfaction for the consumer;

ii. how to facilitate privatisation of vacant and difficult to manage local authority blocks and estates;

iii. local authority rent and subsidy policy.

6.5 The Secretary of State for the Environment has recently announced a decision to set up an Urban Housing Renewal Unit in his Department whose task will be to carry forward energetically the initiatives relevant to i. and ii. above.

Management of the Public Sector

6.6 Much of the present stock provides reasonable satisfaction for tenants and many authorities manage efficiently, keeping void properties and rent arrears under tight rein. The ills of the remainder - costly but poor quality building; lack of responsiveness to consumer preferences; insensitive housing departments; and substantial backlogs of maintenance - are well known. They stem from post-war housing drives and the consequences of local government reorganisation but also from the absence of market disciplines such as consumer choice and competition. About 1 million dwellings fall into the category of 'difficult to manage'. Such estates are characterised by concentrations of disadvantaged households with high rates of unemployment, high incidence of unlet dwellings, rent arrears, vandalism and structural defects.

Vacancies

6.7 At April 1984 in England 2.4 per cent of the local authority stock was vacant, compared with 3.6 per cent in the voluntary sector, 4.2 per cent in the private sector and the accepted rate for management turnover of 2 per cent in the local authority sector. However, this conceals pockets of unacceptably high vacancies (9.8 per cent in Liverpool, 7.7 per cent in Tower Hamlets, 6.6 per cent in Hackney and over 5 per cent in seven other local authorities). If the 30 worst English authorities brought their level of vacancies down to the present national average some 30,000 additional dwellings would become available.

6.8 The significance of measures to reduce vacancies in local authority stock depends on the extent to which there is a correlation between high vacancies and housing shortage in particular areas. There is little information on this at a national level. However, in many of the 30 authorities with the highest

vacancies (particularly the 13 London authorities) severe housing need and unused dwellings go hand in hand. For the majority of these authorities deteriorating stock and ineffective housing management are the root cause of high vacancy levels. In these areas better management and capital expenditure, as appropriate, could make a significant contribution towards meeting housing need by reducing the number of vacancies.

Rent Arrears

6.9 Local authority rent arrears in England and Wales rose from £61 million in March 1979 to £189 million in March 1984 that is from 3.5 per cent to 5.4 per cent of the rent collectable, although the Housing Benefit Scheme introduced in April 1983 has slowed the rate of increase. Within the overall total, there are a number of authorities with extremely high levels of arrears; 10 of the 13 authorities with levels at or above 10 per cent are in London, and the 30 worst authorities account for 48 per cent (£90 million) of total arrears. Recent initiatives by the Housing Departments and the Audit Commission and smoother operation of the Housing Benefit Scheme should help to produce lower arrears generally, but are unlikely to deal adequately with the pockets of very high arrears. The general pressures being applied to reduce local authority inefficiency, eg through the RSG system and rate-capping, should lead to some improvement, but there is scope for additional action specifically on rent arrears in the case of the very worst authorities. The Housing Departments already have action in hand.

Maintenance and Structural Defects

6.10 As noted in Section 2, there is increasing concern about the condition of the ageing pre-war and early post-war stock, and the emerging problem of defects in the 1 million non-traditionally built dwellings. The full extent of these problems is not yet clear, but the cost of repairing pre-fabricated reinforced concrete (PRC) houses in local authority ownership is estimated at about £1.5 billion, and local authorities foresee the need for major expenditure in much of the rest of the public sector stock. In order to

assess the overall scale of the problem the Department of the Environment is asking all English authorities for a comprehensive account of the condition of their existing stock based on information in their possession. The results should be available by July of this year. The Building Research Establishment is studying defects in some of the major industrialised systems in order to guide local authorities on appropriate inspection techniques and remedial measures. Annex F summarizes present information relevant to the condition of the local authority stock.

Localised Management

6.11 The Priority Estates Project (PEP) is aimed at developing integrated estates-based management. There is evidence that such an approach leads to greater tenant satisfaction, and lower maintenance costs following an initial injection of finance to bring the housing up to an acceptable standard and to give the new management style credibility. The Housing Departments are in the process of expanding and evaluating information about the results achieved, with particular reference to cost-effectiveness.

Transferring Management Responsibility From Local Authorities

6.12 Transferring management responsibility to tenant management co-operatives or to private sector agencies can be beneficial in some circumstances. There are now some 20 such co-operatives in the local authority sector. The Secretary of State's approval is required for setting them up.

6.13 To be launched and conducted successfully tenant management co-operatives require a high degree of commitment and management skills which are not readily found, particularly on rundown estates. As a means of providing initial support for the development of management skills, the DOE and its PEP consultants are developing a concept of "management trusts". Under this the local authority would delegate its management functions for an estate or a group of estates to a body consisting of tenants, local community representatives, councillors and co-opted experts. This body or "trust"

would employ the staff and provide the services necessary to run the estate within the budget agreed with the council, and would be accountable both to the tenants and to the local authority.

6.14 The contracting out of particular management functions introduces variety and an element of competition. This is quite commonly done for repair and maintenance services and for caretaking. However, the contracting out of individual management services tends to cut across the PEP principle of a co-ordinated estate based management. Some local authorities have considered the scope for contracting out their housing management service on a comprehensive basis. Little or no interest has been expressed in this by the private sector and, even if the necessary expertise exists, there would be limitations imposed by the exercise of the local authorities' statutory duties eg in relation to homelessness and letting policies. A consultative document has recently been issued on contracting out local authority services. We recommend that, in the light of reactions to this further consideration be given to whether and how far housing management should be included in the new competitive regime for local authority services to be embodied in legislation in the next Parliamentary Session.

6.15 We recommend that, in addition to pursuing the idea of "management trusts", the Housing Departments and the Treasury should examine the desirability of further Government promotion of tenant management co-operatives, including the possibility of financial support for training and start-up expenses.

Transferring Both Ownership and Management Responsibility from Local Authorities

6.16 There are broadly three ways of transferring the ownership of tenanted dwellings of local authorities -

i. through purchase by the tenants themselves who form an ownership co-operative;

ii. through purchase by a non profit making, private trust, as in the case of the Stockbridge Village Trust;

iii. by sale to a commercial developer, (the only example of this is the Strinesdale Estate in Oldham where the great majority of the 160 houses concerned were untenanted).

6.17 Direct acquisition by tenants in the form of ownership co-operatives can involve substantial public expenditure costs. For example, in the case of Glasgow's plans for creating "community co-operatives", the sale package may include significant expenditure on home improvement and repairs grants. It is therefore even more important than in the case of tenant management co-operatives that the tenants to whom ownership is transferred should possess, or have access to, the necessary management skills. The setting up of the Octavia Trust in Wales appears to be a promising development. The Trust is intended to act as a sponsoring body for the setting up of tenants' ownership co-operatives and to assist them in the purchase and running of local authority estates. It believes that, after some initial assistance, it will be possible to cover both mortgage debt and management costs.

6.18 Acquisition by a non-profit making, private trust is a further way of bringing in management skills while securing a degree of tenant participation in the management. If subsidy is to be avoided or minimised, however, the valuation must be realistic and there may also need to be a reasonable prospect of obtaining capital receipts from sales of vacant land and RTB. These conditions obtained in the case of the Stockbridge Village Trust. However, the developments there have attracted about £25 million in grants of which about £16 million (mainly Housing Association Grant) may be discounted as not essential to the financial viability of the Trust.

6.19 The Housing Management Trusts (HMTs) proposed in the Centre for Policy Studies booklet, "Trust the Tenant" are an elaboration of the Stockbridge Village concept, with the principal differences that a statutory framework is proposed and a right for tenants to have their estate sold to a HMT. We

doubt the need for a statutory framework but consider that the idea of a right for tenants to require the sale of an estate to a non-profit making trust should be further examined.

6.20 We recommend that -

i. the Housing Departments and the Treasury study the merits and the public expenditure implications of group purchase of estates by tenants;

ii. the Housing Departments give further consideration to the desirability of a statutory right for tenants, by a substantial majority, to require the sale of an estate to a private trust on which they would be represented.

Sales to the Private Sector of Empty Dwelling and Empty or Near-empty Blocks of Flats

6.21 Within the knowledge of DOE, about 3000 empty dwellings have so far been sold to developers for refurbishment and onward sale to private individuals. Ministers have recently approved legislative proposals to introduce a modest "disturbance" allowance to compensate tenants moved in order to vacate blocks or estates which are to be sold. As noted in Annex A, E(DL) has been pursing various means of speeding up the disposal of unused land and vacant dwellings in public ownership.

6.22 A further spur to such sales might be given if the obstructive attitude of some local authorities could be countered. We recommend that the Housing Departments and the Treasury should examine the scope for legislation which would give individuals, groups and enterprises a right to demand that vacant local authority dwellings be offered for sale on the open market. We understand that the Secretary of State for the Environment has independently initiated a study of this kind.

Local Authority Rent and Subsidy Policy

6.23 A more market-related policy would entail further movement away from subsidies to bricks and mortar through low public sector rents towards income support for the most needy council tenants. Although local authorities have raised rents significantly in recent years, they are still well below the level which would be needed to earn an economic rate of return. The Audit Commission have estimated that, using a 4 per cent rate of return, the economic rent for a typical council dwelling would be about £25 per week. In fact the average gross council house rent outside London is less that £15 per week, and some authorities fail even to cover historic costs on their Housing Revenue Accounts.

6.24 The Report of the Interdepartmental Committee on Local Authority Rent and Subsidy Policy (RASP) estimated that increases of perhaps 25 per cent would be required to give an economic rent, rather lower than the Audit Commission's estimate. The RASP Report sets out various options for change, including requiring rents to yield a given rate of return on capital value. There are a number of practical problems which would need to be resolved, not least the need for a satisfactory basis of valuation, and the particular impact on London, before such a system could be implemented. However deregulation of private renting may make it easier to establish, by analogy, the appropriate level of rents for some types of accommodation. The adoption of economic rents in the local authority sector would be an important step towards a more market-related housing policy. It would remove subsidy from those local authority tenants who can afford to pay an economic rent. It would identify true housing costs more clearly for all tenants. It would provide an additional incentive for better off council tenants to become owner occupiers. There would however be a considerable increase in Housing Benefit (HB) for those tenants eligible for support. The additional public expenditure cost (as with private sector deregulation) would depend in part on decisions about the reform of HB, and final decisions on the RASP Report will need to await the outcome of the current review of HB.

6.25 We recommend that, when decisions have been taken about the reform of Housing Benefit, Ministers should consider, on the basis of the options set out in the RASP Report, whether and how local authority rents should be raised to levels providing an economic rate of return.

SECTION 7: THE VOLUNTARY SECTOR

7.1 The Housing Association (HA) movement has its origin in a long tradition of provision by voluntary, mainly charitable bodies, of housing and care for people whose needs are unmet, or inadequately met by other tenures. The movement's role as a significant provider of housing for "fair rents" dates from the Housing Act 1974, which introduced central Government capital and revenue grants designed to meet the difference between the cost of providing accommodation for registered fair rent and the rental income obtainable from fair rents. This has led to a dramatic growth in the size of the sector: HAs now own about 2.5 per cent of the housing stock in England, 1.7 per cent in Scotland, and 1.4 per cent in Wales. The proportion is much higher in some areas, notably the inner cities, where HAs have played an important role by concentrating on the renovation and replacement of the worst housing, and on the poorest income groups. The Housing Act 1980 further extended the role of the movement by enabling HAs to provide housing for sale under the various Low Cost Home Ownership (LCHO) initiatives with the aid of Government grants.

7.2 At end March 1984 there were 2360 registered HAs in England, 180 in Scotland. Almost three-quarters own fewer than 150 units, although the 25 largest account for as much as 40 per cent of the Housing Corporation's annual development loans. For financial purposes HAs are under close Government control and are effectively part of the public sector; on average 85 per cent of the costs of fair rent developments are met by Housing Association Grant.

7.3. The remainder of this Section describes the Government's present policy objectives towards the sector and examines the scope for meeting them at a lower cost in terms of the amount of subsidy provided to HAs and their tenants. The two main routes discussed are changes in rent policy and the introduction of more private finance.

Present Government Policy

7.4 The main features of present Government strategy are -

i. to provide Government finance to enable HAs to sustain a significant role as providers of housing for "special needs";

ii. to promote HAs as an alternative to local authorities as the providers of low cost rented accommodation for low income groups;

iii. to build on the innovative work of HAs in developing LCHO.

In addition many of the Government's policies towards the local authority sector have also been applied, sometimes in a slightly modified form, to the voluntary sector. The main example is Right to Buy.

7.5 The main benefits from this strategy are -

a. HAs make a significant contribution to the regeneration of inner cities and their management is probably more sensitive than that of local authorities. Problems of difficult to let estates, high rent arrears and vandalism are rare; this may be a function not only of the management style but their generally smaller size and higher quality stock;

b. the distinctive contribution flowing from the voluntary nature of the movement;

c. the closer relationship between the Government and the movement than between the Government and local authorities in terms of controls on costs, and the amounts and distribution of spending;

d. HAs are a more innovative provider of housing than the local authorities; this is a function both of their diversity, and their willingness to act as a test bed for new ideas. (The advantage to HAs in such schemes is that many of the people who take advantage of them are existing HA tenants, thus releasing accommodation for reletting).

The Market Approach

7.6 The system of control over HA expenditure enables the Government to achieve a more direct match between public subsidy and special needs than by provision through local authorities. HAs increase the choice of housing open to those in low income groups, particularly in inner cities. They contribute to the reduction of monopoly by acting as an alternative to local authority renting. But they also have features which it is difficult to reconcile with a purely market related approach to housing. They are closely controlled by the Government. Their expansion has involved a considerable amount of public expenditure. The subsidy which they provide goes to bricks and mortar rather than to individuals. The scope for mitigating these disadvantages is examined below.

Rent and Subsidy Policy

7.7 It is likely that a proportion of HA tenants have sufficient income to enable them to pay a higher rent, and perhaps even a fully economic rent. Since only two thirds of HA tenants are in receipt of Housing Benefit this would be likely to lead to some public expenditure savings. Such a change would however be difficult to achieve. At present HA tenants pay registered fair rents. A move towards rate of return rents (on the model discussed for the local authority sector in Section 6) would presumably have to be confined to those dwellings financed by the Government through Housing Association Grant. This could lead to a confusing mixture of rent regimes for HA tenants. Moreover the HAs might regard the charging of economic rents as inconsistent with their traditional role of providing cheap housing for the disadvantaged, and so discourage the voluntary effort on which the movement depends. Economic rents, supported by increased Housing Benefit, would also reduce the control which Government can exercise over the direction of HA expenditure.

7.8 Whether or not it would be worth embarking on a reform of HA rental policy is closely bound up with the Government's decisions on deregulation of private renting and the application of rate of return rents to the local authority sector. It would be difficult to justify the application of principles

to the voluntary sector which had been rejected in the case of the private and public rented sectors. We therefore recommend that the Housing Departments and the Treasury examine rental policy in the voluntary sector in the light of the decisions on the RASP Report.

Private Finance

7.9 The Housing Corporation has established a Private Finance Working Party, including the lending institutions, to consider how to fund more HA activity from the private sector. Greater use of private finance has already been approved for shared ownership through index-linked mortgages which reduce the need for public subsidy, and the re-financing of Housing Corporation loans to individual purchasers. Private finance in substitution for public sector loans for HA rented property supported by HAG has so far been ruled out on the grounds that the the Government can borrow and lend more cheaply. Rents would have to rise steeply to cover fully the costs of private index-linked loans without subsidy. We recommend that the Housing Departments and the Treasury continue to explore the scope for introducing more private finance into HA operations.

SECTION 8: HOUSING AND MOBILITY

8.1 The need to encourage labour mobility is an important feature of the Government's efforts to improve the supply side of the economy. Housing policy can make a useful, but not decisive contribution. Fewer obstacles to mobility would mean more choice for individuals and better functioning of both the housing and labour markets; as would measures to improve the balance of housing supply and the demand for labour in particular areas.

Nature of the Problem

8.2 The most recent statistical information about housing and labour mobility is the Department of the Environment's Movers Survey of 1977. This is not only out of date but is also limited in its value since it provides information only about moves which took place or had been seriously considered. It provides no measure of the number of moves which were frustrated because rigidities in the housing market made them not worth considering. The Survey does however throw some light on the extent to which house moving and job changing are linked. In 1977 moves for job reasons in England were about one quarter of all house moves and 62 per cent of moves of over 20 miles. It also indicates the form of tenure most likely to coincide with long distance moves. Moves of 10 miles or more were most frequent in the private rented sector (40.1 per 1,000 households), considerably less frequent in the owner occupied sector (24.2) and very much less frequent in the local authority sector (8.6).

8.3 More up to date information is available about one important factor affecting mobility: the house price differential between the South of England (especially Greater London) and other areas and the much smaller regional wage differential.

Table 8.1 Regional Analysis of Housing Pressures

		North	Midlands	Greater London	South excl. London	England
(A)	Average price of secondhand houses					
	(1983) (£)	20,820	21,790	34,578	30,970	26,524
	(Index)	79	82	130	118	100
(B)	Average earnings of adult men in manual work					
	(1983)(£)	142.3	139.0	159.0	140.6	143.5
	(Index)	99	97	111	98	100

Table 8.I shows that, ignoring the special problems of Greater London, someone moving from the North or Midlands to the South is liable to have to pay about 50 per cent more for a house, although average adult earnings in the South (excluding Greater London) are about the same as in the North and Midlands.

8.4 It would be useful to have more information about the link between housing and labour mobility and particularly on the difficulties which employers have in recruiting staff in particular localities; for example those areas where "sunrise" industries are establishing themselves. We understand that the Department of Employment is considering what further study would be valuable. Meanwhile however the following aspects of the analysis are not seriously in dispute -

i. a revival of the private rented sector could help job mobility;

ii. long distance mobility is particularly difficult to achieve in the local authority sector;

iii. bearing in mind that owner occupation is already the dominant tenure and is likely to become so to an even greater extent, it is particularly desirable to make it simpler and less costly to buy and sell houses;

iv. mobility from the North and Midlands to the South is discouraged by the housing costs differential.

What Can Be Done

8.5 Many of the measures already discussed in this report would help with these problems; deregulation of new private sector lettings; economic rents in the local authority sector (which would remove the disincentive of a subsidy related to bricks and mortar, although it would bring out even more clearly than is apparent now the level of housing costs in Greater London); and shortening of the discount repayment period under Right to Buy.

8.6 The Group considered further action under the following headings -

i. local authority mobility schemes;

ii. financial assistance to aid mobility in key sectors;

iii. simplifying house buying and selling;

iv. improving the supply of land for house building in areas of shortage.

Local Authority Mobility Schemes

8.7 There are already schemes in which local authorities participate voluntarily to facilitate moves by council house tenants - the National Mobility Scheme and the Tenants Exchange Scheme. These schemes facilitate self-balancing movement between authorities. The National Mobility Scheme is intended to promote moves specifically for job or social reasons. From the start of the Scheme in April 1981 to the latest returns in January 1985 it has accounted for only 17,300 moves between counties, about one third of them for job reasons. The attitude of local authorities even to these schemes

suggests that they would be unlikely to co-operate with any scheme whose purpose was essentially to benefit the national economy. This conclusion is supported by experience with the Tenants' Rights (Scotland) Act 1980, which attempted to increase mobility by controlling local authorities' rights to restrict entry onto waiting lists: incomers have continued to be discouraged by the quality of housing offered to them. We concluded that it would not be realistic either to try and persuade, or to take powers to compel, local authorities in areas of housing shortage to give preference to people moving in from other areas.

Financial Assistance to Aid Mobility in Key Sectors

8.8 Further investigation of labour shortages in particular areas will probably reveal that these are often related to housing problems, generally either of price or availability. The numbers of workers involved might be small - essentially younger skilled workers, or with the potential to acquire skills in the new technology area - although their importance to the economy is significant. We have therefore considered whether the Government should make available financial assistance to aid labour mobility in key sectors of the economy. Our conclusion is that this would be both cost-ineffective and inconsistent with a market related approach since it would depend on the Government's ability to second guess the market, involve significant deadweight expenditure, and lead to distortions between areas and industries. The problem is better left to market forces, with firms wishing to attract the workers involved being prepared to pay a scarcity premium in the form of salary incentives and assistance with removal costs. It would also be helpful in this, as in other areas, for there to be changes in the method of wage determination away from national rates and towards an approach which recognised local supply and demand for labour.

Land for House Building

8.9 The high level of housing costs in the South East results in part from an insufficient supply of land for house building. Local authority policies are inevitably influenced partly by environmental and planning interests but also by the understandable views of people already living in the area who see dense housing development as a threat to their own convenience and the capital

appreciation of their homes. It is clearly desirable that the national economic interest in introducing greater market freedom into the supply of housing is given due weight, and the Secretary of State for the Environment has recently minuted the Prime Minister with some ideas on how this might be carried forward. Following the abolition of Development Land Tax, we recommend that Ministers give further consideration to ways of reducing restrictions on new housing developments in areas where jobs are being created, eg by ensuring that Structure Plans, especially in the South-East, take full account of market demand, employment growth and labour mobility.

Simplifying House Buying and Selling

8.10 Efforts are being made to simplify and reduce the costs of house buying and selling, for example the licensing of non-solicitor conveyancers. The report of the Interdepartmental Group on Simplifying Housebuying identifies a number of measures which would reduce delay and uncertainty in reaching a commitment and encourage competition and reduce costs. The implementation of many of these changes will be dependent on the response of the building societies, estate agents and solicitors. The Government's direct involvement is limited (mainly to changes in land registration), but it has an important role in promoting change and acting as a catalyst for further discussions. We recommend that Ministers give urgent consideration to the recommendations of the Interdepartmental Group on Simplifying Housebuying and of the 2nd Report of the Farrand Committee.

8.11 Owner occupiers face higher moving costs than any other sector. In the South East, the high level of house prices results in a further barrier to mobility, namely stamp duty. We recommend that, as far as economic and financial circumstances allow, further consideration be given to the structure of stamp duty on housing transactions.

ANNEX A: RELATED STUDIES AND INITIATIVES

1. Rowe Review of Housing Benefit. The review is currently being considered by the Ministerial Group set up to consider the various social security reviews (MISC 111).

2. Interdepartmental Report on Local Authority Rent and Subsidy Policy. This interdepartmental committee chaired by the Department of the Environment reported in September 1984 on the level of local authority rents, the role of central Government in influencing them, the level of subsidy and central Government financial support. It identified a number of options for change on which Ministers have yet to reach any conclusions.

3. Home Improvement Grants. The Housing Departments are finalising consultation documents on a revised scheme.

4. Private Rented Sector. The Home and Social Affairs Committee (H) approved proposals by the Secretaries of State for the Environment and Wales for the deregulation of new lettings on 27 February, but a place in the legislative programme has yet to be agreed.

5. Unused Land and Empty Dwellings in Public Sector Ownership. The Ministerial Sub-Committee on Disposal of Public Sector Assets have decided on various measures to speed up disposals which will be included in this year's PES round; consideration is also being given to the use of existing new powers of compulsion.

6. Building Societies Bill. This Bill, for the 1985/86 Session, will include powers to allow Building Societies to own land and property.

7. Liberalising Conveyancing. The Farrand Committee's second report was published on 7 March.

8. Official Review of Measures to Simplify House Purchase. A recent interdepartmental study identifying options for reform.

9. Ministerial Committee on the Future of Local Government Finance. (E(LF)).

ANNEX B

PUBLIC EXPENDITURE ON HOUSING IN ENGLAND, SCOTLAND AND WALES

£ MILLION, CASH

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
(A) CURRENT (1) TOTAL	2268	2600	2004	1561	1376	1411	1195	1149	1096
(B) CAPITAL (1) IMPROVEMENT GRANTS	166	181	272	561	1223	1005	524	478	470
(2) NEWBUILD/RENOVATIONS									
i. Local Authority	1313	1155	873	843	857	789	708	696	701
ii. Housing Association	664	772	748	927	883	881	831	834	847
iii. SSHA	41	47	42	56	52	49	49	49	49
iv. New Towns	189	199	143	90	90	84	58	48	48
v. Total i-iv	2207	2173	1806	1916	1882	1803	1646	1627	1645
(3) LA RENOVATION	882	837	806	1178	1371	1247	1311	1476	1527
(4) OTHER CAPITAL EXPEND	438	317	267	387	401	497	326	328	328
(5) TOTAL GROSS CAPITAL EXPEND (SUM OF B(1)-B(4))	3693	3508	3151	4042	4877	4552	3807	3909	3970
(6) TOTAL RECEIPTS	-497	-652	-1182	-2120	-2292	-1873	-1987	-1760	-1646
(7) TOTAL NET CAPITAL (B(5)+B(6))	3196	2856	1969	1922	2585	2679	1820	2145	2324
(C) TOTAL PROGRAMME (A1+B7)	5464	5456	3973	3483	3961	4090	3015	3294	3420

NB:

B(2) includes newbuild programmes by local authorities and newbuild + rehabilitation by HAs, SSHAs and NTs.

B(3) is renovation by LAs of their own stock.

B(4) includes enveloping; environmental improvements; LCHO; slum clearance; gross lending to private persons for house purchase and renovation; homeloan (England and Wales); new town improvement (England); LA thermal insulation; LA grants to housing associations; LA, SSHA and NT land and acquisition; LA slum clearance; LA sites for travelling people; CG loans and grants to first time purchasers (Scotland).

Note that certain minor capital expenditure items are recorded differently by England, Scotland and Wales as between items B(2), B(3) and B(4) above.

Annex C: Dwellings and Households in 1981

(thousands)

	All Dwellings	Second Homes, Holiday Accom-modation	Vacant Under Improve ment	Available Dwellings	Households Plus Concealed Families	Balance
Greater London	2,720	21	36	2,663	2,710	-47
Rest of South-East	3,840	43	27	3,770	3,765	+5
East Anglia	748	17	7	724	711	+13
South West	1,723	48	15	1,660	1,663	-3
West Midlands	1,931	7	15	1,909	1,897	+12
East Midlands	1,474	8	15	1,451	1,430	+21
Yorkshire and Humberside	1,898	16	17	1,865	1,847	+18
North East	2,463	12	24	2,427	2,411	+16
Northern	1,207	13	12	1,182	1,171	+11
England	18,003	185	168	17,650	17,605	+45
Wales	1,083	23	10	1,050	1,045	+5
Scotland	1,975	22	13	1,940	1,864	+76

Source: 1981 Census

ANNEX D: COMPARISON WITH OTHER COUNTRIES

Standards

1. Comparisons with other countries are relevant not only to the question of what is potentially at issue in making Britain `the best housed nation in Europe´, but also to what has been achieved by public expenditure and fiscal support for housing. Publicly - financed house building in Britain was sustained on a scale and for a length of time that together were without equal in the western countries, except possibly for the Netherlands. Owner occupiers´ tax relief is also probably greater in amount than in other countries owing to both mortgage interest rates and tax rates being higher than in countries where the proportion of the housing stock that is mortgaged is similar to the UK.

2. The most straightforward comparison is of proportions of dwellings (or of households) without fixed bath, hot water system, or inside WC, as there is little scope for differences of definition to impair the comparison. Average numbers of persons per room are less readily comparable owing to differences of practice about when a kitchen is counted as a `room´. Table A summarises the available information.

3. In terms of the easily measurable aspects of housing, conditions in Britain compare reasonably well with conditions in Western Europe. This is particularly so if levels of output and income are brought into the comparison. In relation to its level of income, the United Kingdom appears better housed than in most other Western countries. However the aspects of housing conditions that can be included in measures such as those in Table A are far from a comprehensive comparison of standards and housing. Repair is not included; nor is anything about the environment. The criticisms of some of high-rise and high density council estates built in Britain in the 1950s, the 1960s and the early 1970s are paralleled by criticisms of `concrete castles´ and `rent barracks´ in Germany; and difficult to manage estates which the police are said to visit only in strength are the subject of comment in France. In Germany there are problem estates increasingly occupied by tenants who are one or more of the `five As´ (in translation the poor, the old, the unemployed, foreigners and alcoholics).

4. More specific, but not possible to compare without a more detailed investigation, are any differences in the proportion of households that share, opportunities for single adults to live on their own if they wish, and for recently married couples to have a house to themselves. It is clear, for example, that the increase in the proportion of single people living on their own has risen rapidly in other Western countries as well as in Britain, but exactly how the rates of increase compare is not known.

Table A. Comparative Measures of Housing Conditions in Western European Countries and USA

	.....Dwellings.....			
	No Bath/ Shower	No Inside WC	Neither Bath/Shower Nor Inside WC	Persons Per Room
Austria (1981)	22.8	14.1	....	....
Belgium (1981)	23.9	18.7	....	0.56
France (1982)	15.3	15.0	20.3	0.74 (a)
Germany (1982)	....	....	9.9	0.58
Netherlands (1981)	4.1	....	....	....
Norway (1980)	11.5	12.5	15.4 (b)	0.75 (b)
Sweden (1980)	7	4	....	0.58
Switzerland (1980)	....	....	....	0.70
USA (1980)	....	....	2.7	0.49
England (c) (1981)	1.8	3.1	5.0 (d)	0.54

Notes: (a) On the British definition the figure would be 0.65; and on the German/US definition 0.61.

(b) On the German/US definition, approx 0.6.

(c) Amenities from EHCS, persons per room from Census.

(d) Lacking one or more of the basic amenities.

ANNEX E: LOW COST FINANCING ARRANGEMENTS

Mortgages on "Low-Start" Terms

1. A low-start mortgage need not involve a subsidy; the low-start is achieved by a change in the basis on which payments are due under the mortgage. The rearrangement can take any of a number of forms: one which has attracted particular attention is "index-linking" under which the payment, or the outstanding debt, is increased periodically in line with (typically) the Retail Price Index.

2. The lack of much development of low-start mortgages is mainly due to the fact that lenders are constrained by the need to match the terms on which they borrow and lend. It would be impractical, for example, to lend on index-linked terms without raising the necessary finance on similar terms. Lenders can only afford to enter this market on any scale if they were sure that they could raise money on similar terms on a similar scale.

3. Under an "equity" mortgage the lender receives a share in the growth in the value of the mortgaged asset, and in return would normally charge a low mortgage interest rate (thus allowing easier mortgage repayments). Such loans have been hampered by the difficulty of raising sufficient sums from pension funds, but there are signs that this is changing.

4. So far as index-linked loans for council house sales are concerned, the main reason for not encouraging local authorities to provide such loans (although they have the powers to do so) is that much of the capital receipts from council house sales would then not accrue to local authorities at the time of sale but would be sums outstanding to them on index-linked mortgages.

Shared Ownership

5. Shared ownership enables a marginal buyer to buy a share in his home (with the assistance of a mortgage loan) while renting the remainder. He can buy out portions of the rented share when he wishes, paying the appropriate share of the then market price.

6. Outgoings of a shared ownership purchaser resemble those on a low-start mortgage, since the payment is, essentially, a mixture of mortgage payments and (a lower amount) of rent. There is no doubt that a substantial market exists for shared ownership purchases. For a few months in 1983 HAs were able to offer "do-it-yourself shared ownership", under which individual buyers could choose their preferred home and have an HA buy it for resale to the individual on shared ownership terms. The 3000 or so sales budgeted for were rapidly over-subscribed. However, shared ownership is only attractive if the element for rent is sufficiently far below the amount which would have been payable on mortgage for the remainder of the property. At present, it is only possible to achieve a sufficient differential where the rented portion is both publicly owned and subsidised. Without a subsidy, commercial landlords cannot make a profit from it.

7. New legislation for building societies envisages them becoming involved in shared ownership. It remains to be seen whether they can keep rents sufficiently low, even on a no-profit basis, to make shared ownership significntly cheaper than outright purchase, or whether they wish to promote shared ownership rather than low-start mortgages. Shared ownership would find great difficulty in competing with the latter, which can offer similarly low outgoings, while giving the buyer all the increase in the value of the property.

ANNEX F: THE CONDITION OF THE PUBLIC SECTOR STOCK

The attached notes summarise the age profile and physical condition of public sector housing in:

a. England;
b. Scotland;
c. Wales.

a. **LOCAL AUTHORITY STOCK CONDITION (ENGLAND)**

1. Numbers (Local authorities and new towns) (approximate numbers by type)

	England	
	Houses m	Flats m
Pre-1945 traditional	0.9	0.2
Post-1945 traditional	1.4	1.2
Pre-1960 non-traditional	0.5	-
Post-1960 non-traditional	0.1	0.4
	2.9	1.8
	4.7	

2. Pre-1945 traditional dwellings (0.9m) require replacement of worn-out major components (roofs, guttering, wiring), repairs, and revised facilities (eg., inside WCs; removal of baths from sculleries) to maintain lettability and saleability. A little more than half the dwellings in England are thought to have had some expenditure in recent years.

3. Post-war traditional houses (1.4m):Pre 1965 (ie., pre-Parker Morris) require some replacement of worn-out components (eg., wiring, outlets). Rotted window and door frames can be a problem throughout post-war houses, including those built after 1965.

4. Pre-war traditionally built balcony access and "walk-up" flats, (0.2m): These require modernisation and replacement of components on the same lines as pre-war traditionally built houses. The extent of effective refurbishment done so far is not known. This type of dwelling is generally unpopular with tenants.

5. Post-war traditionally built flats (concrete frame towers and balcony access) (1.2m): These suffer extensively from defective concrete components (balconies, lintels), spalling concrete frames and cladding, condensation, leaking flat roofs and damp penetration generally. They are unpopular with tenants. The extent of effective repair done so far is not known.

6. Pre 1960 non-traditional houses (0.5m)

Prefabricated reinforced concrete houses:	125,000 in England requiring repair over 10-30 years.
BISF and other steel framed houses:	41,000 in England, requiring normally replacement roofs, cladding and windows; and improvement of insulation and fire protection.
Mass-concrete (Wimpey No-fines, Easiform)	125,000 in England: Condensation and heating problems.

Additionally, some modernisation as in 2 & 3 above may be needed.

7. Post 1960 system built flats and houses (0.5m):
Complex problems affecting structural integrity (40,000 Bison and Taylor Woodrow Anglian dwellings, plus a further 100,000 in large panel systems). The extent

of structural problems in the remaining 360,000 dwellings is not known but there are likely to be extensive defects in cladding, roofs and joints (leading commonly to severe rain penetration). There are also extensive heating and condensation problems. Replacement of lifts is frequently due.

b. PUBLIC AUTHORITY STOCK CONDITION (SCOTLAND)

(Comprising Local Authorities, New Towns and Scottish Special Housing Association).

1. A distinctive feature is that 52 per cent of the housing stock in Scotland falls within the public sector, compared to 26 per cent in England and Wales. The public authority rented stock of 1,057,000 in December 1983 (including New Towns and SSHA) compared with approximately 6 million for England and Wales.

Numbers: (split into houses and flats not available)

		(thousands)
Pre-1945	traditional	261
Post-1944	traditional	694
Pre-1960	non-traditional	63
Post-1959	non-traditional	39
		1,057

2. Pre-1945 traditional: a considerable number have been modernised and repaired over the past twenty years, but up to one-half may currently need significant expenditure.

3. Post-1944 traditional: although some have been repaired or modernised a growing number now need expenditure to remedy deficiencies (eg. window replacement, thermal insulation, installation or replacement of heating systems, modernisation of kitchens and bathrooms).

4. Various forms of large post-war housing estates of traditional as well as non-traditional construction are run-down and difficult to let. Unpopular balcony-access blocks are typical of some of these estates. Extensive work, including a degree of demolition, is required.

5. Pre-1960 non-traditional:

PRC dwellings:	15,000 owned by public authorities. Repair over 10-30 years. (Demolition and replacement may be appropriate for some).
BISF and other steel framed dwellings:	25,000 owned by public authorities. A significant number have been repaired and modernised, but many remain to be done. Some may be demolished rather than repaired.
Mass-concrete:	These have been included in the "traditional stock" figures because their modernisation needs are broadly similar. There are approximately 136,000 no-fines concrete dwellings in Scotland and a proportion of these await modernisation.

6. Post-1959 non-traditional: these are mainly system-built, including 22,000 dwellings of large panel concrete construction (eg. Bisons) which have particular structural defects. But many other multi-storey framed blocks also have problems of water penetration, condensation, and cladding defects. Priority work is being done but much remains to do.

c. LOCAL AUTHORITY STOCK CONDITION (WALES)

1. Numbers

	Wales (1984)	
	Houses 000s	Flats 000s
Pre-1945 Traditional	39	2
Post-1945 Traditional	128	37
Pre-1960 non-traditional	- (65)	-
Post-1960 non-traditional	-	-
	Total = 271	

2. For Pre-1945 traditional dwellings (39,000); Post-war traditional houses (128,000); Pre-war traditionally built flats (2,000); Post-war traditionally built flats (concrete frame towers and balcony access (37,000) - similar considerations apply as in England.

3. For Pre-1960 non-traditional houses the numbers in the main categories are:

Pre-fabricated reinforced concrete (PRC) houses	- 15,000
BISF and other steel framed houses	- 6,500
Mass concrete	- 11,500

4. Post-1960 system built flats and houses and concrete-frame blocks: There are 1,000 Bison and Taylor Woodrow Anglian dwellings. The number of large panel system dwellings is insignificant in Wales.

670

A

Prime Minister

Sir John Boreham has copied to me his minute of 25 March about the proposed large scale household survey.

The need to have the up-to-date information the survey would provide is rather greater than Sir John suggests.

Our policies on local government finance would be put seriously at risk if we had to rely on information about conditions in 1981 - and even earlier for some data. The survey will up-date many of the series used in crucial components of the GRE's which form the basis of the RSG allocation. Moreover, spending performance in relation to GRE is used in selecting authorities for rate limitation, so it is particularly important that central government should minimise the scope for criticising the GRE assessments for these authorities. GREs are also used in setting expenditure targets (there is discrimination by reference to spending above or below GRE) and will play an even more crucial role if, as seems possible, targets are removed.

Our efforts to deal as effectively as possible with the major social and economic problems in inner city areas also mean that we must have up-to-date information on conditions there. It would not be acceptable to make decisions about which authorities receive assistance and the level of that assistance on the basis of information which, without the survey, would be over 10 years old by the time information was available from the next census.

Sample census

The information which the survey will provide on the dwelling stock and on characteristics of households is required also to carry forward our policies on home ownership and private renting.

I do not consider it sensible to rely through the rest of the decade on information from the 1981 Census, but I understand that Sir John is not proposing any alternative to the survey.

/ The attached note comments on some of the more technical points in Sir John's minute.

Copies of this minute go to Sir Robert Armstrong and Sir John Boreham.

PJ

P J

28 March 1985

Technical points on Sir John Boreham's minute

The assessment in Sir John's fourth paragraph of the maximum welfare gain from a more satisfactory allocation of grant is based on a number of questionable assumptions and in any case ignores the importance of the fact that the allocation has been made fairly. The author of the article from which the method was taken was considering the value of a full census and was looking at errors in population estimates rather than the items to be measured in the survey.

The information about sampling errors in Sir John's fifth paragraph is not relevant to the proposed survey. The figures which Sir John quotes relate to the results of a 10% sample of census returns taking one in ten evenly throughout the country. The results which are least accurate proportionately are those for small districts where the 10% sample is a fortiori small. The proposed survey is not intended to provide results for each district. The sample would be allocated to ensure adequate coverage in the areas for which results are required - metropolitan districts and shire counties, plus selected urban districts - but not the generality of shire districts. The example Sir John quotes of men aged 65 and over is also inappropriate in that the numbers in the survey would be grossed up for each age group to OPCS's mid-year population estimates for the district. The resulting figure would not then be affected by sampling errors in the survey. The scale of sampling error which one might expect on other topics for the areas for which results are required varies according to the topic. As an indication, if 20 per cent of the households in a district have the relevant characteristic, eg over-crowding, then there is a 95 per cent chance that the survey result will be in the range 19.3 - 20.7%.

27 March 1985

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CABINET OFFICE
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28 MAR 1985
FILING INSTRUCTIONS
FILE No.

Treasury Chambers, Parliament Street, SW1P 3AG

Sir R
Sir JB has some support!

Rt Hon Patrick Jenkin MP
Secretary of State
Department of the Environment
2 Marsham Street
London
SW1P 3EB

27 March 1985

Dear Patrick

LARGE SCALE HOUSEHOLD SURVEY

I have seen your letter of 19 March to Willie Whitelaw about your plans for a Large Scale Household Survey in 1986.

I am very doubtful about the value of spending so much on a survey of this kind. Is it really worth around £15 million to secure a marginal improvement in the accuracy of the GRE calculations and hence of grant distribution? There are, I understand, doubts about the reliability of the results at a local level. And should we for the longer-term be looking for ever more sophisticated - and hence more complicated - GRE methodologies, rather than a simpler assessment of the needs of each area?

You put forward the need for expenditure provision for this survey as a bid in the 1984 Public Expenditure Survey. I resisted any additional provision then on the grounds that the survey represented poor value for money.

My view remains that the survey is poor value for money. Given the other pressures on public expenditure - not least from local authorities - I think we should seize the opportunity to make a worthwhile saving by dropping it.

I am copying this letter to the other members of H Committee, Sir RobertArmstrong and Sir John Boreham.

Yours ever Peter

PETER REES

RESTRICTED

B

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A06982

PRIME MINISTER
through Sir Robert Armstrong RWA

I am writing to oppose the large survey planned for 1986 by the Secretary of State for the Environment.

He and his officials are convinced that the £15 million that it would cost would provide good value for money. They believe that it would improve the efficiency of allocation of rate support grant, also make housing management and inner city management more efficient.

I do not.

In the first place, even if the survey produced perfectly correct figures, the difference between the benefit gained from the extra grant received by the districts which had too little before the survey and the benefit lost by those which had too much, could not exceed half a million pounds per year. That is a matter of mathematics, not belief.

In the second place the survey would not produce perfectly correct figures; there would be sampling and non-sampling errors. The evidence is that the estimates of, for example, the number of men over 65 would be more than 4 per cent wrong in an unknown 120 of the 400 districts. That would not be revealed until the 1991 census results became available, in 1992 or 1993.

More efficient management of housing and inner cities - more efficient, that is, than would be possible without the survey - could not possibly, I am convinced, make up a further £2.5 million per year of benefit from the survey.

I accept, of course, that there are political arguments. The heart of them is that a large and expensive survey would do much to quieten dissatisfaction about the RSG settlement and allocation, at least until the 1991 census results come out.

However, you have charged me to make sure that the £100 million spent each year on statistics provides the government and the nation with full value for money. That must be based on statistical and economic judgements and my view is that this proposed additional £15 million would by no means pay off. I cannot accept that so large an addition to the normal amount could be justified largely because it will calm argument for seven years. Political consideration can swing an argument otherwise finely balanced but this argument, in my view, is not.

Mr Wroe, Director of Statistics at the Department of the Environment, is convinced that I am wrong and that the survey is fully justified. He does not accept that it is valid to separate the statistical and political arguments as I do.

If the survey were to go ahead the contract would need to be settled very soon; the Secretary of State for the Environment wrote to his colleagues copying the letter to Sir Robert Armstrong and me, on 19 March asking for their comments by Friday 29 March. I am sending a copy of this minute to him.

I hope it is not too late to cancel the survey.

John Boreham

JOHN BOREHAM

Central Statistical Office

25 March 1985

I understand that the Secretary of State for the Environment will shortly be sending you a minute, setting out his proposals for a survey.

RCA 27.iii.85

CC NO

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

John Moore Esq MP
Financial Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

NBPM

20 March 1985

Dear John,

SURPLUS LAND AND EMPTY HOUSING

I am sorry to have missed the deadline for comments on your letter of 13 March about the arrangements in the 1985 Survey for receipts from the disposal of surplus land and empty housing following the decision in E(DL) last November.

I am generally content with the proposals but I would like to endorse strongly what Peter Walker says in his letter of 18 March about the importance of flexibility in applying the target dates if we are to avoid loss to public funds through selling at the wrong time.

I must also point out that the detailed tabulation called for in paragraph 3 of the draft Survey instructions may not be the most helpful basis on which to consider an existing planned sales programme such as we have for prisons housing.

I am copying this letter to those who received yours.

Yours ever,

George

HOUSING : Policy : Pt 5.

10 MAR 1985

CC/10

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NJPM

John Moore Esq MP
Financial Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

19 March 1985

Dear Financial Secretary

SURPLUS LAND AND EMPTY HOUSING

Your letter of 13 March to Patrick Jenkin asks for comments on the draft Survey guidelines for estimated disposals of surplus land and empty housing.

Of course I support the intention behind your proposals. However as far as the national roads programme is concerned, my Department would find it very hard to estimate disposals accurately for more than a year ahead. This is because of factors outside our control in determining the road programme, most especially the process of public inquiry. This not only causes uncertainty over timing; it can also mean that the line of the route is changed. Yet the statutory blight procedures mean that we can be required to buy some kinds of property in advance (although obviously we try to avoid advance acquisition wherever possible) without being able to be certain that it will be needed.

Accordingly I cannot see that targets beyond one year would be meaningful. Moreover we would have considerable difficulty in providing some of the information required in the draft guidelines. It would, for example, take considerable staff effort to add up our total holdings of land, much of which will in any event already have been embodied in road schemes and is therefore scarcely likely to become surplus in the foreseeable future.

The same considerations apply to empty housing, but with the added proviso that, for political and social reasons, we do our best to let our stock on a temporary basis to bodies such as local authorities or housing associations for subletting to their tenants. So for these properties we do not know, without time-consuming enquiries, which happen to be empty at any time.

For these reasons I would ask that our officials get together to decide how far the proposals should be implemented for road scheme holdings.

As to nationalised industries, my Department has for many years agreed targets with British Rail for the disposal of non-operational land. BR's Investment and Financing Review bid has also included, in addition, substantial income from operational property. Although these estimates of property income are included in the IFR bid, setting of the EFL takes into account the wider economic circumstances of the industry and individual items are not hypothecated. Once the EFL is set the industry has discretion on how best to manage within it. In deciding whether the Government should seek to agree with BR further targets for disposals of land, it will be important to consider the relative financial benefits to BR from sale or retention of their property, and this is one of the issues which the MMC are addressing in their current examination of BR's property activities. Until we know the outcome of this - the report is expected in mid-April - it would seem premature to judge whether further targets are necessary.

I am copying this to the Prime Minister, members of E(DL), Ministers in charge of Departments not represented at E(DL), and to Sir Robert Armstrong.

Yours sincerely

Henry Dorment (Private Secretary)

NICHOLAS RIDLEY (approved by the Secretary of State but signed in his absence)

19 MAR 1985

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: J/PSO/12143/85
Your ref:

19 March 1985

Name

Dear John,

SURPLUS LAND AND EMPTY HOUSING

Thank you for your letter of 13 March and the draft of part of the 1985 Public Expenditure Survey guidelines. In general I am content with the proposals set out in the letter and the details of the Survey guidelines.

I am however not entirely happy with the intention in the guidelines dealing with the Agreement of targets. The text is somewhat unclear but I assume it proposes that Treasury officials will consult mine on the rates of disposal proposed by all other Departments. We would be in a position to offer advice on the rates of disposal of housing, and indeed I suggested this to you, but I do not think we have the same degree of general expertise on land disposals. We may be able to draw on our experience in some areas, for example in dealing with the disposal of difficult sites or in the land market in areas where Government landholdings are significantly large. These apart, it seems to add an extra and unnecessary round of consultations for your officials to consult mine on all the rates of disposal of land proposed by other Department.

You have explained that the Investment and Financing Review for the nationalised industries asks for information on expected receipts from the sale of surplus land and empty housing which will lead to the setting of disposal receipt targets in the autumn. In the case of empty housing. I would be grateful if Treasury officials would, as with the PESC Survey guidelines on disposal targets, consult with my officials on the rates of disposal proposed by the nationalised industries.

In order to set effective and reasonable targets for the disposal of empty dwellings by the nationalised industries, the categories of information set out in para 3 of the draft PESC Survey

guidelines are essential. I suggest that this data should now be collected from industries as part of the Investment and Financing Review.

Copies go to the Prime Minister, members of E(DL), other Ministers in charge of Departments and Sir Robert Armstrong.

Yours ever

Patrick

PATRICK JENKIN

CONFIDENTIAL

From: THE PRIVATE SECRETARY

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

Miss Helen Goodman
Private Secretary to the
Financial Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

18th March 1985

Dear Helen,

SURPLUS LAND AND EMPTY HOUSING

Mr Hurd was sent a copy of the Financial Secretary's letter of 19 March to Mr Jenkin about the disposal of surplus land and empty housing.

You will recall that Mr Hurd wrote on this subject on 21 February 1985 (not to all) and his position remains as set out in that letter.

I understand that officials are to consider at a meeting on 21 March how the new arrangements will be applied to the territorial departments and we await the outcome of that discussion with interest.

Despite the deadline of 18 March for comments I assume that Mr Hurd will be able to return to this subject after 21 March should that prove necessary.

I am copying this to the Private Secretaries to the Prime Minister, Members of E(DL), Ministers in charge of Departments not represented at E(DL) and Sir Robert Armstrong.

Yours Sincerely

Neil Ward.

N D WARD

CONFIDENTIAL

ssd

19 MAR 1985

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File

CHIEF SECRETARY TO HER MAJESTY'S TREASURY

You asked me to evaluate the possibilities of attracting private funding for home improvement loans, perhaps using a loan guarantee scheme.

A paper setting out the detailed analysis is attached. The main points are as follows:

1. Home improvement loans would be secured on property, which is so safe that a loan guarantee would provide little extra incentive or attraction to the financial institutions.

2. Poorer people (who would get equity loans or historic loans) cannot afford either the regular repayments or the high interest on conventional loans.

3. The real problem with private funding is that, for as long as real interest rates remain positive, the return on equity loans or historic-cost loans is very much less than that on conventional loans. Therefore the banks would only offer equity or historic-cost loans if the Government subsidised them to do so.

4. At today's strongly positive real interest rates, the Government subsidy would, in the long run, cost more than giving grants to every loan applicant. However, at negative real interest rates, private funding would be cheaper than doing loans any other way - and, of course, a great deal cheaper than grants.

5. There would be a short-term PSBR saving on your option, even at high positive real interest rates. But that saving would not materialise if the banks demanded annual interest payments from the Government rather than waiting until the loans were repaid and collecting both the repayments and the subsidy at that point.

6. Therefore, private-sector participation is doubtful because, in the present state of the market, the rate of return is not commercial unless the Government provides a large subsidy.

7. However, I do not like to report that money cannot be saved. So you may like to press for the grants to people below the means-test thresholds to be paid instead as historic-cost loans. That would allow us to achieve 100% loans, as you originally suggested, and bring home a healthy extra saving.

CM.

CHRISTOPHER MONCKTON

13 March, 1985.

PRIVATE FUNDING OF HOME IMPROVEMENT LOANS

Background

At the recent meeting of Ministers on home improvement policy, it was agreed that equity-linked home improvement loans should be included as an option in the forthcoming DoE Green Paper on private-sector home improvement. A mixed system was preferred:

	MANDATORY WORKS	DISCRETIONARY WORKS
BELOW MEANS-TEST THRESHOLDS	G R A N T S	L O A N S
ABOVE MEANS-TEST THRESHOLDS	L O A N S	N O T H I N G

The Chief Secretary asked the Policy Unit to investigate the possibility, which he had suggested at the meeting, of private-sector funding of loans, perhaps backed by a loan guarantee scheme.

The DTI Loan Guarantee Scheme

A three-year pilot scheme ended last May. At that point 15,143 guarantees had been issued for £496.8m of bank lending to small firms. Both the demand and the level of failures (about one-third) are higher than expected. It appears that some banks are using the scheme as a dustbin for high-risk projects.

Loan guarantees for home improvement?

There would be a comparatively small risk to banks which lent money for home improvement, since loans would be secured as a charge on the property. On subsequent sale, the loan would be repaid and the charge redeemed. The low risk of default on secured loans makes it unlikely that the banks would be swayed in their lending decisions by the availability of State guarantees.

Why banks may be reluctant to lend

Risk of default will not deter the banks: but, at high real interest rates, they will be unwilling to make equity-linked loans because the income to them from such loans would be a great deal less than the income from conventional lending.

Assume that, for the next 25 years, house prices rise in line with inflation at 4%, while interest rates remain at 9%. A householder borrows £10,000 for home improvements and the bank registers the loan as a charge on his property, represented as a parcentage of its post-improvement value. After 25 years, he sells the house and pays the bank its due portion, which is £26,658. On a conventional loan repaid with rolled-up 9% interest at the end of the term, the repayment would be £86,231.

TABLE 1 : REPAYMENTS (£) ON A £10,000 LOAN AFTER 5 TO 25 YEARS

£	5yrs	10yrs	15yrs	20yrs	25yrs	30yrs
4% interest	12167	14802	18009	21911	26658	32434
5% interest	12762	16289	20789	26533	33864	43219
6% interest	13382	17908	23966	32071	42919	57435
7% interest	14025	19672	27590	38697	54274	76123
8% interest	14693	21589	31722	46610	68485	100627
9% interest	15386	23674	36425	56044	86231	132677
10% interest	16105	25937	41772	67275	108347	174494

Table 1 illustrates the lender's problem. An equity loan, assuming that house prices rise in line with inflation at 4%, would earn the bank the equivalent of rolled-up interest at 4%. At high real rates of interest, the bank would lose heavily if it received only that amount rather than the considerably higher amounts it would get on a conventional loan.

Thus, public subsidy would be needed to make good the shortfall which the table shows and to recompense the banks for the interest they could have obtained elsewhere and have foregone.

The costs and benefits of subsidising bank lending

In macro-economic terms, there is little or no difference between bank lending and public-sector lending for home improvement. However, there are considerable savings in public expenditure, in the short term, if banks take on the loans. But these savings are partly (and in the long term wholly) offset by the subsidy which would be needed to pay the banks' customary interest rate.

Assume that, at constant 1984/5 prices, £100m of what would now be home improvement grants is spent on loans each year; that house-prices rise in line with 4% inflation, that interest rates are 9% and that the average period of a home improvement loan is in accordance with the DoE's rather high estimate of 15 years. Table 2 summarises the costs and benefits of grants; historic-cost loans; equity loans; and subsidised bank loans:

FINANCIAL COMPARISON OF HOME IMPROVEMENT AID SYSTEMS

£m/yr at 1984/5 terms		Yr 5	Yr10	Yr15	Yr20	Yr25	Yr30	Yr..
SUBSIDY	with present GRANTS	100	100	100	100	100	100	100
	with HISTORIC loans	85	73	63	55	48	42	42
	with EQUITY loans	83	67	50	33	17	0	0
	to BANK (HIST loans)	4	17	37	68	110	167	167
	to BANK (EQTY loans)	3	10	24	47	79	125	125
SAVINGS	with present GRANTS	0	0	0	0	0	0	0
	with HISTORIC loans	15	27	37	45	52	58	58
	with EQUITY loans	17	33	50	67	83	100	100
	from BANK (HIST loans)	96	83	63	32	-10	-67	-67
	from BANK (EQTY loans)	97	90	76	53	21	-25	-25

Table 2 shows that, although there are healthy savings in the early years from a scheme under which the Government makes good the shortfall between the banks' usual interest rates and what they would get if they offered either historic-cost or equity loans, in the longer term the annual cost of the subsidy to the banks would be higher than the annual cost of providing grants.

Furthermore, it is unlikely that the banks would be willing to defer the receipt of any repayment until the unspecified future date when the borrower decided to sell his house: accordingly, they would probably expect the Government to pay interest to them annually, thereby reducing the short-term savings indicated in table 2.

If borrowers were in a financial position to make regular monthly repayments of interest, there would be no obstacle in principle to their taking out conventional loans with the banks. However, most borrowers (particularly under a means-tested scheme) would be poor and could only afford to make the repayments out of the proceeds of subsequent sale of the improved property.

The annex to this paper sets out a more detailed financial appraisal of the options. It indicates that private financing would require less subsidy (particularly in present-value terms) if a) the average loan period were shorter than the 15 years estimated by DoE, and b) the average real interest rate over the next 30 years were less than the 5% at which the Treasury are now discounting to present value.

But even after these factors have been taken into account, it is cheaper in the long run, at current real interest rates, to provide equity loans or historic-cost loans than to subsidise the banks to provide them. The reason is that the banks make a considerable profit out of high real interest rates: and any scheme which involved them as lenders would, in effect, be subsidising their profit rather than the borrower and his house.

Summary of the options

Grants only: Ministers have rightly rejected this as unnecessarily expensive. DoE estimates indicate that £600m a year would have to be spent by the State just to keep the housing stock from deteriorating further with age, let alone improve it. So, if we stayed with grants, we should either have to cut annual expenditure below DoE's huge figure and accept the political costs of a housing stock which crumbled into decay or keep on spending at something like present record levels.

Historic-cost loans: Provided that inflation is held down to its present levels, historic-cost loans produce worthwhile savings. The Treasury may like to press for these as a cheaper alternative to grants for those below the means-test thresholds who need to carry out mandatory works. This would be a reasonable way to make the extra savings which private funding seems unlikely to achieve.

Equity loans: Ministers have now agreed that these are the best option for a) those above the means-test thresholds who need mandatory works done, and b) those below the thresholds who need discretionary works done. The savings from equity loans are, of course, greater than for historic-cost loans.

Private funding: Either historic-cost loans or equity loans could be funded privately, if the Government subsidised the banks. But the short-term PSBR saving is wiped out by the long-run cost, particularly at high real interest-rates. And the short-term PSBR saving could not, in practice, be achieved unless the banks were willing to defer all interest payments until the end of the loan period.

Copies of this note have been sent to the Lord President, the Minister Without Portfolio, the Chancellor of the Exchequer, the Lord Privy Seal, the Secretaries of State for the Environment, Trade and Industry, Scotland and Wales, the Paymaster General, the Minister for Housing and Construction, Mr. Newton and Mr. Brearley.

CM.

CHRISTOPHER MONCKTON

13 March, 1985.

ANNEX : METHOD OF CALCULATION

Tables A to F give a full printout of the subsidies and savings for grants; historic-cost loans; equity loans; and loans provided by banks with Government subsidies.

All figures are in millions of pounds. Figures are presented:

* in cash terms for the year shown; and
* at 1984/5 prices for the year shown; and
* as cumulative present value to the year shown.

Where the loan period is 15 years, it is assumed that one-thirtieth of the amount lent out in any one year is repaid in each of the subsequent 30 years; and pro rata.

In all tables, the total amount of former grants replaced by loans is assumed to be £100m. In practice, the sum might be many times this figure, and all the calculations would then be multiplied up pro rata.

In all tables, inflation is assumed to be 4%.

TABLE	Interest rate	Discount rate	Av. loan period
A	9%	5%	15 years
B	6.5%	3%	15 years
C	4%	1%	15 years
D	2%	0%	15 years
E	9%	5%	10 years
F	9%	5%	7 years

Tables for other combinations of amount lent, inflation, interest rates, discount rates and average loan periods can be calculated instantly upon request. Discounting for present-value calculations is from the 1984/5 values.

Each table gives the following information, at 5-year intervals:

* The sum lent (£100m pa at constant 1984/5 prices).
* The sum repaid each year on HISTORIC-COST loans (ie the PSBR saving from such loans;
* The amount of subsidy required for HISTORIC-COST loans (= the sum lent less the sum repaid);
* The sum repaid and the subsidy for EQUITY loans;
* The amount the BANKS would require in repayments, at the given interest rate, assuming that loans were paid off in the same pattern as for historic or equity loans, and that interest was rolled up until the final repayment date.
* The amount of subsidy the banks would demand to make good the shortfall between their expectation at full interest and the given receipts for HISTORIC-COST loans; and for EQUITY loans.
* The PSBR saving, compared with making grants, from HISTORIC-COST and from EQUITY loans.

A.

FINANCIAL APPRAISAL OF THE CHIEF SECRETARY'S PROPOSAL FOR PRIVATELY-FUNDED HOME IMPROVEMENT LOANS

Total lent £m: 100 Inflation rate %: 4 Interest rate %: 9 Discount rate %: 5 Av. loan period yrs: 15

	YR 5	YR10	YR15	YR20	YR25	YR30	YR35	YR40	YR45	YR50	YR55	YR60	YR65	YR70	YR75	YR80	YR85	YR90	YR95	YR100
SUM LENT	122	148	180	219	267	324	395	480	584	711	865	1052	1280	1557	1895	2305	2804	3412	4151	5050
84/5 terms	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cum. PV	533	872	1138	1346	1509	1637	1737	1816	1877	1926	1963	1993	2016	2034	2049	2060	2068	2075	2081	2085
HIST rpmts	18	40	67	99	139	187	227	277	337	410	498	606	738	898	1092	1329	1616	1967	2393	2911
84/5 terms	15	27	37	45	52	58	58	58	58	58	58	58	58	58	58	58	58	58	58	58
Cum. PV	38	113	201	289	369	440	498	543	578	606	628	645	658	669	677	683	688	692	695	698
Subsidy	104	108	113	120	128	137	167	203	247	301	366	446	542	660	803	976	1188	1445	1758	2139
84/5 terms	85	73	63	55	48	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42
Cum. PV	495	759	937	1058	1140	1197	1240	1273	1299	1320	1336	1348	1358	1366	1372	1376	1380	1383	1385	1387
EQTY rpmts	20	49	90	146	222	324	395	480	584	711	865	1052	1280	1557	1895	2305	2804	3412	4151	5050
84/5 terms	17	33	50	67	83	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cum. PV	42	131	246	370	494	613	713	792	853	902	939	969	992	1010	1025	1036	1044	1051	1057	1061
Subsidy	101	99	90	73	44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
84/5 terms	83	67	50	33	17	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cum. PV	491	741	892	976	1015	1024	1024	1024	1024	1024	1024	1024	1024	1024	1024	1024	1024	1024	1024	1024
BANK rpmts	23	64	134	248	433	728	886	1078	1312	1596	1942	2363	2874	3497	4255	5177	6298	7663	9323	11343
84/5 terms	19	44	74	113	162	225	225	225	225	225	225	225	225	225	225	225	225	225	225	225
Cum. PV	47	158	320	520	750	1002	1227	1403	1542	1650	1735	1801	1853	1894	1926	1951	1970	1986	1998	2007
Hist sbsdy	5	24	67	149	294	541	659	802	975	1186	1443	1756	2137	2600	3163	3848	4682	5696	6930	8432
84/5 terms	4	17	37	68	110	167	167	167	167	167	167	167	167	167	167	167	167	167	167	167
Cum. PV	8	45	119	232	381	562	730	861	963	1044	1107	1156	1195	1225	1249	1267	1282	1293	1302	1309
Eqty sbsdy	3	15	44	102	211	404	492	598	728	885	1077	1311	1595	1940	2360	2872	3494	4251	5172	6292
84/5 terms	3	10	24	47	79	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125
Cum. PV	5	27	74	150	255	389	514	611	688	748	795	832	861	883	901	915	926	935	941	946
Hist savg	116	124	113	70	-27	-217	-264	-321	-391	-476	-579	-704	-857	-1043	-1268	-1543	-1877	-2284	-2779	-3381
84/5 terms	96	83	63	32	-10	-67	-67	-67	-67	-67	-67	-67	-67	-67	-67	-67	-67	-67	-67	-67
Cum. PV	525	827	1019	1115	1129	1075	1008	955	914	882	857	837	821	809	800	792	786	782	778	775
Eqty savg	119	133	136	117	56	-80	-97	-118	-144	-175	-213	-259	-315	-383	-466	-567	-690	-839	-1021	-1242
84/5 terms	97	90	76	53	21	-25	-25	-25	-25	-25	-25	-25	-25	-25	-25	-25	-25	-25	-25	-25
Cum. PV	528	845	1064	1196	1254	1248	1224	1204	1189	1178	1168	1161	1155	1151	1147	1145	1142	1141	1139	1138

B

FINANCIAL APPRAISAL OF THE CHIEF SECRETARY'S PROPOSAL FOR PRIVATELY-FUNDED HOME IMPROVEMENT LOANS

Total lent £m: 100 Inflation rate %: 4 Interest rate %: 6.5 Discount rate %: 3 Av. loan period yrs: 15

	YR 5	YR10	YR15	YR20	YR25	YR30	YR35	YR40	YR45	YR50	YR55	YR60	YR65	YR70	YR75	YR80	YR85	YR90	YR95	YR100
SUM LENT	122	148	180	219	267	324	395	480	584	711	865	1052	1280	1557	1895	2305	2804	3412	4151	5050
84/5 terms	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cum. PV	558	953	1294	1588	1841	2060	2249	2411	2552	2673	2777	2868	2945	3012	3070	3120	3163	3200	3232	3260
HIST rpmts	18	40	67	99	139	187	227	277	337	410	498	606	738	898	1092	1329	1616	1967	2393	2911
84/5 terms	15	27	37	45	52	58	58	58	58	58	58	58	58	58	58	58	58	58	58	58
Cum. PV	41	129	242	365	490	612	720	814	895	965	1025	1077	1122	1161	1194	1223	1247	1269	1287	1303
Subsidy	104	108	113	120	128	137	167	203	247	301	366	446	542	660	803	976	1188	1445	1758	2139
84/5 terms	85	73	63	55	48	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42
Cum. PV	517	824	1052	1223	1351	1448	1528	1597	1657	1708	1752	1790	1823	1852	1876	1897	1916	1931	1945	1957
EQTY rpmts	20	49	90	146	222	324	395	480	584	711	865	1052	1280	1557	1895	2305	2804	3412	4151	5050
84/5 terms	17	33	50	67	83	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cum. PV	45	149	296	472	666	870	1059	1221	1362	1483	1587	1677	1755	1822	1880	1930	1973	2010	2042	2070
Subsidy	101	99	90	73	44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
84/5 terms	83	67	50	33	17	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cum. PV	513	804	997	1115	1175	1190	1190	1190	1190	1190	1190	1190	1190	1190	1190	1190	1190	1190	1190	1190
BANK rpmts	22	56	109	189	307	479	582	709	862	1049	1276	1553	1889	2298	2796	3402	4139	5035	6126	7454
84/5 terms	18	38	61	86	115	148	148	148	148	148	148	148	148	148	148	148	148	148	148	148
Cum. PV	47	164	339	561	822	1115	1394	1634	1841	2020	2174	2307	2422	2521	2606	2680	2743	2798	2845	2886
Hist sbsdy	4	16	43	90	168	292	355	432	525	639	778	946	1151	1401	1704	2073	2522	3069	3734	4543
84/5 terms	3	11	24	41	63	90	90	90	90	90	90	90	90	90	90	90	90	90	90	90
Cum. PV	6	35	97	196	332	503	673	820	946	1055	1149	1230	1300	1360	1412	1457	1496	1529	1558	1583
Eqty sbsdy	2	7	19	43	85	154	188	228	278	338	411	501	609	741	902	1097	1334	1624	1975	2403
84/5 terms	1	5	11	20	32	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48
Cum. PV	3	15	42	89	156	245	335	412	479	537	587	629	666	698	726	750	770	788	803	816
Hist savg	118	132	137	129	98	33	40	48	59	71	87	106	129	157	190	232	282	343	417	508
84/5 terms	97	89	76	59	37	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Cum. PV	552	918	1197	1392	1509	1557	1576	1592	1606	1618	1629	1638	1646	1652	1658	1663	1667	1671	1674	1677
Eqty savg	120	141	161	176	182	170	207	252	306	372	453	551	671	816	993	1208	1470	1788	2176	2647
84/5 terms	99	95	89	80	68	52	52	52	52	52	52	52	52	52	52	52	52	52	52	52
Cum. PV	555	938	1251	1499	1685	1815	1914	1999	2073	2136	2191	2238	2279	2314	2344	2370	2393	2412	2429	2444

INANCIAL APPRAISAL OF THE CHIEF SECRETARY'S PROPOSAL FOR PRIVATELY-FUNDED HOME IMPROVEMENT LOANS

otal lent £m: 100 Inflation rate %: 4 Interest rate %: 4 Discount rate %: 1 Av. loan period yrs: 15

	YR 5	YR10	YR15	YR20	YR25	YR30	YR35	YR40	YR45	YR50	YR55	YR60	YR65	YR70	YR75	YR80	YR85	YR90	YR95	YR100
UM LENT	122	148	180	219	267	324	395	480	584	711	865	1052	1280	1557	1895	2305	2804	3412	4151	5050
84/5 terms	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cum. PV	585	1047	1487	1905	2302	2681	3041	3383	3709	4020	4315	4596	4863	5117	5359	5589	5808	6016	6214	6403
IST rpmts	18	40	67	99	139	187	227	277	337	410	498	606	738	898	1092	1329	1616	1967	2393	2911
84/5 terms	15	27	37	45	52	58	58	58	58	58	58	58	58	58	58	58	58	58	58	58
Cum. PV	44	147	293	469	665	875	1083	1280	1468	1647	1817	1979	2133	2280	2419	2552	2678	2798	2912	3021
ubsidy	104	108	113	120	128	137	167	203	247	301	366	446	542	660	803	976	1188	1445	1758	2139
84/5 terms	85	73	63	55	48	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42
Cum. PV	541	900	1194	1436	1637	1805	1958	2103	2241	2372	2497	2616	2730	2837	2940	3037	3130	3218	3302	3382
QTY rpmts	20	49	90	146	222	324	395	480	584	711	865	1052	1280	1557	1895	2305	2804	3412	4151	5050
84/5 terms	17	33	50	67	83	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cum. PV	48	171	361	612	916	1269	1629	1972	2298	2608	2903	3184	3451	3705	3947	4177	4396	4605	4803	4992
ubsidy	101	99	90	73	44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
84/5 terms	83	67	50	33	17	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cum. PV	537	876	1125	1293	1386	1411	1411	1411	1411	1411	1411	1411	1411	1411	1411	1411	1411	1411	1411	1411
ANK rpmts	20	49	90	146	222	324	395	480	584	711	865	1052	1280	1557	1895	2305	2804	3412	4151	5050
84/5 terms	17	33	50	67	83	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cum. PV	48	171	361	612	916	1269	1629	1972	2298	2608	2903	3184	3451	3705	3947	4177	4396	4605	4803	4992
ist sbsdy	2	9	23	47	83	137	167	203	247	301	366	446	542	660	803	976	1188	1445	1758	2139
84/5 terms	2	6	13	21	31	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42
Cum. PV	4	24	68	143	251	394	546	692	830	961	1086	1205	1318	1426	1528	1626	1719	1807	1891	1971
qty sbsdy	0	0	0	0	0	-0	-0	0	-0	-0	0	0	0	-0	0	0	0	-0	0	0
84/5 terms	0	0	0	0	0	-0	-0	0	-0	-0	0	0	0	-0	0	0	0	-0	0	0
Cum. PV	0	0	0	0	0	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0	0	0	0	0
ist savg	119	139	157	172	183	187	227	277	337	410	498	606	738	898	1092	1329	1616	1967	2393	2911
84/5 terms	98	94	87	79	69	58	58	58	58	58	58	58	58	58	58	58	58	58	58	58
Cum. PV	581	1023	1418	1762	2051	2287	2494	2692	2880	3059	3229	3390	3544	3691	3830	3963	4089	4209	4324	4432
qty savg	122	148	180	219	267	324	395	480	584	711	865	1052	1280	1557	1895	2305	2804	3412	4151	5050
84/5 terms	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cum. PV	585	1047	1487	1905	2302	2681	3041	3383	3709	4020	4315	4596	4863	5117	5359	5589	5808	6016	6214	6403

D.

INANCIAL APPRAISAL OF THE CHIEF SECRETARY'S PROPOSAL FOR PRIVATELY-FUNDED HOME IMPROVEMENT LOANS

otal lent £m: 100 Inflation rate %: 4 Interest rate %: 2 Discount rate %: 0 Av. loan period yrs: 15

	YR 5	YR10	YR15	YR20	YR25	YR30	YR35	YR40	YR45	YR50	YR55	YR60	YR65	YR70	YR75	YR80	YR85	YR90	YR95	YR100
UM LENT	122	148	180	219	267	324	395	480	584	711	865	1052	1280	1557	1895	2305	2804	3412	4151	5050
84/5 terms	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cum. PV	600	1100	1600	2100	2600	3100	3600	4100	4600	5100	5600	6100	6600	7100	7600	8100	8600	9100	9600	10100
IST rpmts	18	40	67	99	139	187	227	277	337	410	498	606	738	898	1092	1329	1616	1967	2393	2911
84/5 terms	15	27	37	45	52	58	58	58	58	58	58	58	58	58	58	58	58	58	58	58
Cum. PV	46	157	323	534	781	1059	1347	1635	1924	2212	2500	2788	3076	3365	3653	3941	4229	4517	4806	5094
ubsidy	104	108	113	120	128	137	167	203	247	301	366	446	542	660	803	976	1188	1445	1758	2139
84/5 terms	85	73	63	55	48	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42
Cum. PV	554	943	1277	1566	1819	2041	2253	2465	2676	2888	3100	3312	3524	3735	3947	4159	4371	4583	4794	5006
OTY rpmts	20	49	90	146	222	324	395	480	584	711	865	1052	1280	1557	1895	2305	2804	3412	4151	5050
84/5 terms	17	33	50	67	83	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cum. PV	50	183	400	700	1083	1550	2050	2550	3050	3550	4050	4550	5050	5550	6050	6550	7050	7550	8050	8550
ubsidy	101	99	90	73	44	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
84/5 terms	83	67	50	33	17	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cum. PV	550	917	1200	1400	1517	1550	1550	1550	1550	1550	1550	1550	1550	1550	1550	1550	1550	1550	1550	1550
ANK rpmts	19	44	77	120	174	243	296	360	438	533	649	790	961	1169	1422	1730	2105	2561	3116	3791
84/5 terms	16	30	43	55	65	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75
Cum. PV	48	170	359	610	916	1272	1647	2023	2398	2773	3148	3524	3899	4274	4650	5025	5400	5776	6151	6526
list sbsdy	1	4	11	21	35	56	69	84	102	124	151	183	223	271	330	401	488	594	723	880
84/5 terms	1	3	6	9	13	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17
Cum. PV	2	12	36	76	134	213	300	387	474	561	648	736	823	910	997	1084	1171	1258	1345	1432
qty sbsdy	-1	-5	-13	-26	-48	-81	-98	-120	-146	-177	-216	-262	-319	-388	-473	-575	-699	-851	-1035	-1260
84/5 terms	-1	-3	-7	-12	-18	-25	-25	-25	-25	-25	-25	-25	-25	-25	-25	-25	-25	-25	-25	-25
Cum. PV	-2	-14	-41	-90	-168	-278	-403	-527	-652	-777	-902	-1026	-1151	-1276	-1400	-1525	-1650	-1774	-1899	-2024
list savg	121	144	169	198	231	268	326	396	482	587	714	869	1057	1286	1565	1903	2316	2818	3428	4171
84/5 terms	99	97	94	91	87	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83
Cum. PV	598	1088	1564	2024	2466	2887	3300	3713	4126	4539	4952	5364	5777	6190	6603	7016	7429	7842	8255	8668
qty savg	123	153	193	245	314	405	493	600	730	888	1080	1314	1599	1946	2367	2880	3504	4263	5186	6310
84/5 terms	101	103	107	112	118	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125
Cum. PV	602	1114	1641	2190	2768	3378	4003	4627	5252	5877	6502	7126	7751	8376	9000	9625	10250	10874	11499	12124

E.

FINANCIAL APPRAISAL OF THE CHIEF SECRETARY'S PROPOSAL FOR PRIVATELY-FUNDED HOME IMPROVEMENT LOANS

Total lent £m: 100 Inflation rate %: 4 Interest rate %: 9 Discount rate %: 5 Av. loan period yrs: 10

	YR 5	YR10	YR15	YR20	YR25	YR30	YR35	YR40	YR45	YR50	YR55	YR60	YR65	YR70	YR75	YR80	YR85	YR90	YR95	YR100
SUM LENT	122	148	180	219	267	324	395	480	584	711	865	1052	1280	1557	1895	2305	2804	3412	4151	5050
84/5 terms	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cum. PV	533	872	1138	1346	1509	1637	1737	1816	1877	1926	1963	1993	2016	2034	2049	2060	2068	2075	2081	2085
HIST rpmts	27	60	100	149	181	220	268	326	397	483	588	715	870	1058	1287	1566	1906	2318	2821	3432
84/5 terms	22	41	56	68	68	68	68	68	68	68	68	68	68	68	68	68	68	68	68	68
Cum. PV	57	170	302	433	544	631	699	752	794	826	852	872	888	900	910	918	924	928	932	935
Subsidy	95	88	80	70	85	104	126	154	187	228	277	337	410	499	607	739	899	1093	1330	1619
84/5 terms	78	59	44	32	32	32	32	32	32	32	32	32	32	32	32	32	32	32	32	32
Cum. PV	475	702	836	913	966	1007	1039	1064	1084	1099	1111	1121	1128	1134	1139	1142	1145	1147	1149	1150
EQTY rpmts	30	74	135	219	267	324	395	480	584	711	865	1052	1280	1557	1895	2305	2804	3412	4151	5050
84/5 terms	25	50	75	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cum. PV	63	197	368	555	718	846	946	1024	1086	1134	1172	1201	1225	1243	1257	1268	1277	1284	1289	1293
Subsidy	91	74	45	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
84/5 terms	75	50	25	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cum. PV	470	675	770	791	791	791	791	791	791	791	791	791	791	791	791	791	791	791	791	791
BANK rpmts	35	97	201	372	453	551	670	815	992	1207	1468	1786	2173	2644	3217	3914	4762	5793	7048	8576
84/5 terms	29	65	111	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170
Cum. PV	70	237	480	780	1057	1274	1444	1578	1682	1764	1828	1878	1918	1948	1973	1992	2006	2018	2027	2034
Hist sbsdy	8	37	101	223	272	330	402	489	595	724	881	1071	1303	1586	1929	2348	2856	3475	4228	5144
84/5 terms	7	25	56	102	102	102	102	102	102	102	102	102	102	102	102	102	102	102	102	102
Cum. PV	13	67	178	347	514	644	746	826	888	937	976	1006	1030	1048	1063	1074	1083	1090	1095	1100
Eqty sbsdy	5	23	66	153	186	226	275	335	408	496	603	734	893	1087	1322	1609	1957	2381	2897	3525
84/5 terms	4	15	36	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70
Cum. PV	7	41	112	225	339	429	498	553	596	630	656	677	693	706	716	723	729	734	738	741
Hist savg	114	111	79	-4	-5	-6	-7	-9	-11	-13	-16	-19	-24	-29	-35	-43	-52	-63	-77	-93
84/5 terms	93	75	44	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
Cum. PV	520	805	960	999	996	993	992	990	989	988	987	987	986	986	986	986	985	985	985	985
Eqty savg	117	125	114	66	81	98	119	145	176	215	261	318	387	470	572	696	847	1030	1254	1525
84/5 terms	96	85	64	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
Cum. PV	526	832	1026	1121	1170	1209	1239	1263	1281	1296	1307	1316	1323	1329	1333	1336	1339	1341	1343	1344

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FINANCIAL APPRAISAL OF THE CHIEF SECRETARY'S PROPOSAL FOR PRIVATELY-FUNDED HOME IMPROVEMENT LOANS

Total lent £m: 100 Inflation rate %: 4 Interest rate %: 9 Discount rate %: 5 Av. loan period yrs: 7

	YR 5	YR10	YR15	YR20	YR25	YR30	YR35	YR40	YR45	YR50	YR55	YR60	YR65	YR70	YR75	YR80	YR85	YR90	YR95	YR100
SUM LENT	122	148	180	219	267	324	395	480	584	711	865	1052	1280	1557	1895	2305	2804	3412	4151	5050
84/5 terms	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cum. PV	533	872	1138	1346	1509	1637	1737	1816	1877	1926	1963	1993	2016	2034	2049	2060	2068	2075	2081	2085
HIST rpmts	39	86	136	165	201	245	298	362	441	536	652	794	966	1175	1429	1739	2116	2574	3132	3811
84/5 terms	32	58	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75
Cum. PV	82	243	429	586	709	806	881	941	987	1023	1052	1074	1092	1105	1116	1124	1131	1136	1140	1143
Subsidy	83	62	44	54	65	80	97	118	143	174	212	258	314	382	465	566	688	838	1019	1240
84/5 terms	68	42	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25
Cum. PV	451	629	709	760	800	832	856	875	890	902	912	919	925	929	932	935	937	939	940	941
EQTY rpmts	43	106	180	219	267	324	395	480	584	711	865	1052	1280	1557	1895	2305	2804	3412	4151	5050
84/5 terms	36	71	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cum. PV	90	281	523	731	894	1022	1122	1201	1262	1310	1348	1378	1401	1419	1433	1444	1453	1460	1465	1470
Subsidy	78	42	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
84/5 terms	64	29	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cum. PV	443	591	615	615	615	615	615	615	615	615	615	615	615	615	615	615	615	615	615	615
BANK rpmts	50	138	261	317	386	470	571	695	846	1029	1252	1523	1853	2254	2743	3337	4060	4940	6010	7312
84/5 terms	41	93	145	145	145	145	145	145	145	145	145	145	145	145	145	145	145	145	145	145
Cum. PV	100	339	679	980	1216	1401	1546	1660	1749	1819	1874	1916	1950	1976	1997	2013	2026	2036	2043	2049
Hist sbsdy	11	52	125	152	185	225	274	333	405	493	599	729	887	1080	1313	1598	1944	2365	2878	3501
84/5 terms	9	35	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69
Cum. PV	18	96	250	394	507	596	665	720	762	796	822	842	858	871	881	889	895	899	903	906
Eqty sbsdy	7	32	81	98	119	145	177	215	262	318	387	471	573	697	848	1032	1256	1528	1859	2261
84/5 terms	5	22	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45
Cum. PV	10	58	156	249	322	379	424	459	487	508	525	539	549	557	564	569	572	575	578	580
Hist savg	110	96	55	67	82	99	121	147	179	218	265	323	393	478	581	707	860	1047	1273	1549
84/5 terms	91	65	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31
Cum. PV	515	776	888	952	1002	1042	1072	1096	1115	1130	1142	1151	1158	1163	1168	1171	1174	1176	1178	1179
Eqty savg	115	116	99	121	147	179	218	265	323	392	477	581	707	860	1046	1273	1549	1884	2292	2789
84/5 terms	95	78	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55
Cum. PV	523	814	982	1097	1187	1258	1313	1357	1390	1417	1438	1454	1467	1477	1485	1491	1496	1500	1503	1505

14 MAR 1985

Subject a master

INJ

7/6

10 DOWNING STREET

6 March 1985

From the Private Secretary

Dear John.

Home Improvement Policy

The Prime Minister held a meeting today in her room at the House of Commons to discuss home improvement policy. Present were the Lord President, Chancellor of the Exchequer, Lord Privy Seal, the Secretaries of State for the Environment, Trade and Industry, Scotland and Wales, the Chief Secretary, the Paymaster General, the Minister for Housing and Construction and Mr. Newton. Also present were Mr. Monckton and Mr. Brearley.

The Secretary of State for the Environment said that, following discussion in H Committee last year, he had produced a draft Green Paper. This sought to remedy two main defects of the existing grants scheme - that it gave help to many who could afford to pay for their own improvement work, and that it denied help to many others who could not afford to pay because eligibilty for assistance was determined by the rateable value of the property. It also floated the idea of loans as an alternative to grants, a suggestion which had been made following the H discussion. In response to comments on the Green Paper he had produced a policy note which was circulated on 11 February. This recommended targeting grants through a simple means test and argued against the introduction of loans. The Chief Secretary's paper of 1 March had not only argued for loans but had reopened the question of whether discretionary grants should continue to be available.

The Prime Minister said that the concept of repairs for which discretionary grants were available had been introduced in 1974; it was not something to which the present Government should be committed. People not only had an interest in maintaining the condition of their own property but, with rising living standards, should increasingly have the resources to do so. She saw merit in loans which could be secured on the house and for which the cost would be related to the increase in value. Furthermore the new definition of improvements eligible for both mandatory and discretionary grants was much wider than under the existing scheme.

JR

In discussion it was argued that equity linked loans could have an important role to play. They would provide a household with a fair choice between financing improvements themselves or seeking Government assistance in return for conceding part of the increased equity arising from the improvements. This would avoid a situation in which taxpayers financed work which increased the value of houses which then accrued solely to the householder or his heirs.

It was argued that nonetheless it would be a mistake to rely wholly on loans. There were a large number of older properties (and would soon be an increasing number of poorly built inter-war properties) occupied by people, many of them retired, who could not afford to maintain them. While the state had no responsibility to maintain such properties it was in its interest to do so as otherwise the condition of housing would deteriorate, the occupants would fall to be housed by the state and the state would have to finance expensive urban renewal. An all-loan system would discourage many poorer people from making desirable improvements. Means tested grants should be available but only for mandatory improvements. So far as possible the criteria used for means testing home improvement grants should be aligned with those in the new housing benefit scheme.

In discussion the merit of the revised Improvement for Sale grants was queried. In their favour it was argued that such grants provided a mechanism for encouraging private developers to take on whole blocks of houses. This was often preferable to piecemeal improvement. Furthermore it was entirely consistent with the Government's aim of encouraging co-operation between the public and private sectors. It would not add to expenditure as the grants would be financed from within local authorities' existing capital allocations.

The Chief Secretary suggested that a system of publicly guaranteed improvement loans should also be investigated as a further option. The loss rate would be small as the loans would initially be secured on the property. Furthermore the administration would fall to the private sector.

The Secretary of State for the Environment said that if revised proposals were settled quickly he would be able to include the necessary legislation in the Housing Bill he hoped to bring forward dealing with the private rented sector. The Lord Privy Seal took note of his wish to introduce this legislation in the next session but warned that the legislative programme was already very heavily loaded.

The Prime Minister invited the Secretary of State for the Environment to develop further the proposals for home improvement support in the light of the discussion. He should look at the definition of the work which was eligible for mandatory and discretionary assistance with the aim of tightening up the definitions particularly of mandatory work. He should investigate a scheme in which grants were

made available for mandatory improvements and equity linked loans secured on the property provided for discretionary work. Loans might also be appropriate for mandatory work incurred by householders whose income was at the top end of the eligibility range. Support in either form should be related to an eligibility test based on household income and savings on the lines proposed by the Secretary of State. If possible the eligibility criteria should be made consistent with those in the new housing benefit scheme. The Secretary of State for the Environment, in conjunction with the Chief Secretary should also investigate the possibility of publicly guaranteed loans. The Secretary of State for the Environment should then submit a revised draft of the Green Paper to H Committee for further consideration.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), Rachel Lomax (HM Treasury), David Morris (Lord Privy Seal's Office), Callum McCarthy (Department of Trade and Industry), John Graham (Scottish Office), Colin Jones (Welsh Office), Richard Broadbent (Chief Secretary's Office), Alex Galloway (Paymaster General's Office), Neil Kinghan (Minister for Housing and Construction's Office), Colin Phillips (Office of the Minister of State, DHSS), David Normington (Department of Employment) and Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turnbull

Andrew Turnbull

John Ballard Esq
Department of the Environment.

E.R.

PRIME MINISTER 1 March, 1985

HOME IMPROVEMENT POLICY - GRANTS, LOANS OR BOTH?

History

The Cabinet last November 8 decided that home improvement grants would be an appropriate target for reduction of public expenditure. They did so with good reason. Home improvement grants cost the taxpayer only £66m in 1977/8: last year they cost £933m, or over 14 times more. The figures for local authorities' capital spending on home improvement and thermal insulation grants in recent years have grown as follows:

YEAR:	1977/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85
Cash terms:	£ 67m	£ 98m	£134m	£144m	£218m	£451m	£933m	£778m
1984/5 prices:	£124m	£174m	£206m	£190m	£258m	£495m	£980m	£778m

The original draft of the DoE's consultation paper on home improvement policy suggested that there should be better targeting of home improvement grants by the exclusion from grant of all applicants with incomes over £10,000 a year or savings of more than £4,000. However, this proposal would not have met the Cabinet's brief to deliver PSBR savings - it would merely have redistributed the present grant cake.

We therefore suggested the inclusion of loans as an option in the consultation paper and, after discussion, DoE agreed. The paper accordingly suggested that some or all grants might be replaced by either equity-sharing loans or historic-cost loans.

Equity-sharing loans: the local authority would take an equity stake in the property equivalent to the increase in its value represented by the works carried out with the loan. The loan would be repayable either on subsequent sale of the house or earlier, at the borrower's discretion.

Historic-cost loans: the local authority would recoup the cash value of the works carried out with the loan, without interest, when the loan was repaid, either on subsequent sale or earlier.

You expressed no opinion on equity-sharing loans but felt that historic-cost loans were too much like grants to be worth the political cost of the policy change. David Barclay wrote accordingly to Patrick Jenkin's private secretary, and DoE have responded with a policy paper dismissing loans as undesirable and recommending their original suggestion of better targeting of grants. Lord Young has responded to the policy paper with a note to you expressing strong support for loans.

Next Wednesday you will be meeting DoE Ministers and other Ministers with an interest in housing policy to discuss what should be in the consultation paper.

The options

1: Do nothing: If we make no change in policy, either the present frighteningly high level of spending on grants will continue or the number of applications approved will have to be very severely rationed, accelerating the already serious decline in the state of the housing stock.

E.R.

2: Better targeting: This is the DoE's preferred option. Like option 1, it yields no savings unless grant queues are allowed to lengthen and, on its own, is not worth pursuing in our view. One might as well follow option 1 and do nothing.

3: A mixed system of grants and loans: Like Lord Young, we **recommend** this option. Grants would be paid to the poorest 60% of applicants; loans would be paid to the richest 40%. Savings would be about **£15m** in year 1, rising to **£70m** in year 5 and **£200m-300m** by year 20 (all figures at constant 1984/5 prices). These savings are obviously worthwhile, and could be redeployed partly to reduce public spending generally and partly to provide further grants to clear the present backlog of applications and thus to meet the criticism that, despite heavy increases in grant expenditure, we are not yet doing enough to care for the stock.

4: Loans for all: This is the option preferred by the Chief Secretary. It would produce the largest saving: **£40m** in year 1, **£260m** in year 10 and **£780m** in year 20. But it is, in our view, unduly harsh on the poorer people who are most in need of help. It would be politically very difficult to sell this option in the present climate of concern about the state of the housing stock.

Conclusion

We recommend that a mixed system of grants and loans be included as an option in the consultation paper. We think it would be politically saleable, administratively simple (the only extra work for councils is the means test to decide who gets loans) and, above all, financially rewarding in PSBR terms.

CHRISTOPHER MONCKTON

CM

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CONFIDENTIAL

cc NO

Treasury Chambers, Parliament Street, SW1P 3AG

D Barclay Esq
Private Secretary to the
Prime Minister
10 Downing Street
London
SW1

1 March 1985

Dear David

HOME IMPROVEMENT POLICY

Andrew Allberry copied to me his letter of 11 February about private sector housing improvement policy. In advance of the Prime Minister's meeting on 6 March to consider the paper by the Secretaries of State for the Environment and Wales attached to his letter, the Chief Secretary thought it might be helpful to circulate the attached note which looks in more detail at the possibility of substituting loans for home improvement grants. The Chief Secretary would summarise the argument in the note as follows:

(i) It is not consistent with the Government's philosophy to assume that the State has a responsibility for the condition of the private sector housing stock, except in circumstances in which the condition of a dwelling represents a danger to public health

(ii) Loans are therefore preferable in principle to grants since they involve a lower subsidy (even after alllowing for costs of administration).

(iii) The proposed grant system would be targetted so as to give people sufficient to meet the cost of work, taking account of their ability to raise commercial loan finance.

(iv) It follows that, for a given level of subsidy, loans under the proposed scheme may be more attractive to owners than cash grants since the latter would not normally be sufficient to enable them to go ahead with the work.

I can confirm that the Treasury are content with the public expenditure calculations in the paper by the Secretaries of State.

CONFIDENTIAL

I am copying this letter to the Private Secretaries of members of H Committee and to Richard Hatfield at Cabinet Office.

Yours sincerely

Richard

RICHARD BROADBENT
Private Secretary

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HOME IMPROVEMENT: LOANS AS AN ALTERNATIVE TO GRANTS

Note by the Treasury

Underlying Philosophy

1. The Government's philosophy favours encouraging individual responsibility and choice, seeking market solutions to problems wherever possible. However paragraph 6 of Mr Allberry's letter of 11 February to Mr Barclay, covering the note by the Secretaries of State for the Environment and for Wales on home improvement policy, states that:-

> "Whether it is important to help those private householders who find the prospect of renovation work daunting, depends on whether the private sector housing stock is to be regarded as a national asset. This is the assumption of which successive Governments have based their policies."

It is undeniably the case that the private sector housing stock is a national asset; the majority of the population rely on it for their housing needs. However the Treasury has argued throughout the present discussions on improvement policy that it does not follow that the Government has a responsibility to ensure that the private sector stock is maintained.

2. In general, the condition of a particular dwelling is the responsibility of the owner, who alone bears the consequences of any failure to maintain his dwelling properly. Only where the condition of a dwelling deteriorates to such an extent that it imposes costs on other members of the community, for example by becoming a danger to public health, does the Government have a responsibility to ensure that action is taken. Where the owner has the means to carry out the necessary work unaided, no public funds are needed but if he does not, there is a case for assistance.

3. Indeed, in the absence of grants, provided owners are reasonably well informed and have access to suitable forms of finance, the market should operate so that prices reflect house conditions and enable improvement work to be carried out without assistance to the standard that owners desire. Where owners do not have the means to carry out such work, the dwelling will usually be improved on change of ownership. Any subsidy to improvement work is likely to be capitalised, to some extent, in house prices and frustrate the operate of the market because the increase in value of improvement work will need to be less than the cost of the work.

4. In practice, we have taken the proposed new minimum standard to be the one that should trigger Government concern. We have therefore supported the proposed new system of mandatory grants for dwellings falling below that standard provided they are means tested but opposed discretionary grants for dwellings above it.

Implications for Loans

5. This is the background to our attitude to substituting loans for grants. In particular:-

(a) We see no case for making loans available in addition to grants or on more generous terms since the proposed grant scheme is already wider than we would like;

(b) We would favour substituting loans for discretionary grants provided the additional administrative costs are not substantial since the subsidy involved will be lower than with grants;

(c) We also favour substituting loans for mandatory grnts since, wherethey are taken up, they will achieve the same effect at lower net present cost than grants. Where they are not, Minsiters may wish to consider whether, where there is a clear danger to public health, other powers should be available to local authorities to ensure that action is taken.

Terms of Loans

6. The note considers three possible terms on which loans might be given. In descending order of the subsidy involved these are:-

(i) interest free;
(ii) equity loan;
(iii) linked to an index of house prices.

In cases (ii) and (iii), it is assumed that interest is rolled up with the loan and paid when it is redeemed since loans will only be available to low income householders who cannot afford interest payments.

Subsidy Implicit in Loans

7. A proper measure of the subsidy involved is net grant equivalent ie the value of the loan less the repayments discounted at 5% real. Assuming a loan of £9,000 for 15 years (the average assumed in the DOE calculations) on works costing £10,000 with pre and post improvement values of £22,000 and £30,000 respectively (as noted in paragraph 4, so long as there is a subsidy system it may be the case that the cost of improvement is more than the increase in value), using the DOE's inflation assumptions, the net grant equivalents would, in each of the cases listed above, be:-

(i) £6,220
(ii) £4,997
(iii) £3,996

8. The calculations of (i) and (iii) are independent of the increase in value assumed whilst (ii) clearly depends on it and (for dwellings whose prices rise in line with house prices generally) can range between the extremes of (i) and (iii). Thus when the amount is given as grant it represents a subsidy of 90% of the cost, it represents one of 62% when given as an interest free loan, between 62% and 40% when given as an equity loan and 40% when given as a loan indexed to house prices. There will

be a degree of subsidy in these terms in any loan scheme with a real rate of interest of less than 5%.

9. These calculations are based on the assumed average length of time before the loan is paid off. In each individual case, the shorter the length of time, the lower the subsidy, and conversely. This is likely to reduce the extent to which the values of loans are capitalised in house prices. Moreover, if the loan scheme is properly targetted a loan is likely to be more effective than a grant of equivalent net present value. If the loan scheme is targetted so as to give just enough help to enable work to go ahead with the aid of savings and any commercial funding that can be obtained, the work would not be able to go ahead with a grant of equivalent value.

10. On the other hand a loan scheme is likely to reduce mobility because loans will become repayable when the recipient moves. The economic significant of this depends on how economically active are potential recipients; the available evidence suggests that they are relatively less active than owner occupiers as a whole. A further disadvantage is that a loan scheme is likely to be more costly to administer. There would be extra work in taking out a legal charge on the property and securing repayment many years after the loan was made.

Public Expenditure Aspects

11. In general we agree with the calculations of the public expenditure effects of loans as an alternative to grants. These are not significantly sensitive to the assumed rates of inflation and real increase in house prices. The important assumptions are the real rates of interest assumed and the proportion of loans repaid each year. The former will be determined by the terms of the scheme: the latter depends on how long recipients are expected to stay in their homes following receipts of loans.

12. We understand that, on the basis of the 1983 Distribution of Grant Enquiry, the DOE estimate that on average potential grant recipients will remain in the homes for 15 years following

receipt of grant. It is perhaps surprising that grant recipients expect to stay in their homes for such a long period, particularly since the average owner occupier stays only seven years and the 1981 English House Condition Survey found that a high proportion of potential recipients had lived in their present dwelling for 20 years or more. Nevertheless it is consistent with a picture of typical recipients living in one house for the greater part of their adult lives with low incomes and little spare cash for home maintenance.

13. Replacing grants by loans will tend to make recipients less mobile because it is proposed that loans should be repaid when the recipient moves. It is therefore likely that loan recipients will stay in their present home at least as long on average as the 15 years expected for grant recipients. The DOE have assumed an average repayment period of 15 years ie that one thirtieth (ie 3 1/3%) of the loans made in each year are repaid in each subsequent year.

Conclusion

14. Substituting loans for grants on the basis proposed is consistent with the Government's philosophy provided they are an alternative and not an addition to grants. Despite the relatively small public expenditure saving in early years they are likely to be more cost effective than grants for a given outlay.

Take up should only be of concern to the Government where there is a clear danger to public health. In such cases, local authorities could be given powers to ensure that owners took action, the cost being met by a loan where the owner was eligible.

15. However there are disadvantages. A loan scheme will tend to reduce mobility although, because potential recipients are likely to be disinclined to move for other reasons and to be among the less economically active, this should not have a significant effect. A loan scheme will also be more costly to administer. There is no reason to think that these extra

costs will outweigh the other public expenditure benefits of a loans scheme, but the practical problems need further study.

Housing: Policy 45

17 MAR 1985

cc NO

* In addition there are
(i) Chief Secretary's note of 1/3
(ii) Lord Young's note of 27/2
(iii) Policy Unit note of 1/3
All three urge inclusion of loans as an option in the consultation document.

PRIME MINISTER

HOUSING IMPROVEMENT POLICY *

(PS/Secretary of State for the Environment's letter of 11 February)

BACKGROUND

1. For many years there has been a system of house improvement grants to owner occupiers - mandatory grants for the installation of basic amenities (eg toilets, washing facilities) and discretionary grant for major repairs and improvements. Eligibility is restricted to those with rateable values below £400 in London and £225 elsewhere. The underlying rationale is that the housing stock is a national asset, the maintenance and improvement of which to basic standards is worth public support where owners cannot afford to undertake the work themselves. The latest house condition survey (1981) showed that about 25 per cent of owner-occupied houses in England and Wales needed substantial improvement or repair and 5-6 per cent needed major repair.

2. The present system is inefficient: a third of those eligible could afford the work without public sector help, while over 100,000 owner-occupiers who cannot afford the work are ineligible. The Housing ministers have therefore reviewed the policy and brought new proposals to H Committee last year. H Committee agreed that there should continue to be a system of grants, but that in future mandatory grants should be related to a "tolerable" standard and discretionary grants to a "10 point/30 year" standard (details in Appendices A and B to this brief), and that the rateable value test of eligibility should be replaced by a means test based on gross income (£10,000) and savings (£4,000) (details in Appendix C). This would improve the targetting by reducing to under 200,000 the number of those eligible who could afford the work without public sector help, and to about 60,000 the number of those who will remain ineligible even though they cannot afford the work. The Housing ministers were

51% by O.A.P's

asked to prepare consultation documents.

3. While they were doing so, it was suggested to them that an option to make loans should also be introduced and this was included in their draft consultation paper. It was your concern about this aspect in particular that has led to the meeting.

MAIN ISSUES

4. The main issues are:

a. Whether assistance (whether by grant or loan) should be provided to owner-occupiers.

b. What the eligibility test should be.

c. Whether there should be loans instead of or as well as grants.

Assistance in principle

5. A stated objective of the increase in grant expenditure announced in the 1982 Budget was support for the construction industry but the underlying reason for state support is the national interest in the maintenance of the housing stock in decent condition. The argument is that, if it is not adequately maintained, there will in the longer run need to be greater use of national resources (including possibly public expenditure) to replace what is worn out. There is also the Government's manifesto commitment to "make Britain the best housed nation in Europe". While in principle it is clearly the responsibility of owner-occupiers to maintain and improve their own homes (and they, in the short term, are the ones who suffer if they fail), there are many of them who cannot in practice afford to do so. (And this may be an increasing number as the "right to buy" and other initiatives bring more of the lower income groups into owner-occupation.)

The eligibility test

6. Accepting that there is a case for public sector involvement, the objective is to limit support to those who cannot afford to finance the work themselves. The present eligibility test uses rateable value as a surrogate for ability to pay. It is inefficient bringing in many who can afford to pay (or to borrow) as well as leaving out many who cannot. A full means test (taking complete account of individuals' ability to pay) would be very efficient but costly in administrative terms and likely to act as a significant deterrent to take up. H Committee favoured a simpler test of income (up to £10,000) and savings (up to £4,000 excluding the value of any equity in the house) which would be more efficient than the present system without the complexity, administrative cost or deterrent effect of a full means test.

7. In addition the Secretary of State for Wales favoured "passporting" (ie automatic eligibility) for old age pensioners but this was rejected because many pensioners (perhaps 120,000 households) could afford to pay. You have queried whether mandatory grants could be restricted to those of pensionable age. Paragraph 11 of the DoE paper points out that this would exclude some 60 per cent of those in the worst housing who could not afford to do the work themselves and would therefore have to depend on discretionary grants.

Grants or loans

8. The Department of the Environment assume that loans would be repaid when the value of the property is realised and that their terms could be either (i) interest free, (ii) with interest rolled up and paid when the loan is repaid, or (iii) linked to a share in the equity of the property.

9. The case for loans is partly on public expenditure grounds (while the loans do not cover their cost until year 20 or beyond - see the table in paragraph 20 of the paper - there would be a public

expenditure saving as compared with grants almost from the beginning) and partly on grounds of fairness. Why should the owner get a windfall gain from the effect of the repair/improvement on the value of the property, at the expense of the taxpayer? The disadvantages are the administrative complexity and, more importantly, the deterrent effect (though no attempt is made to quantify this in the DoE paper). There is also a political dimension. Similar arguments apply to a mixed system (eg mandatory grants but discretionary loans) though this might be a useful way of introducing the loan concept without going the whole hog. On balance, the Secretaries of State for the Environment and for Scotland both favour not adopting loans. The Chief Secretary is likely to take the opposite view.

HANDLING

10. You will wish to ask the Secretary of State for the Environment to introduce his paper, and might then ask the Housing ministers (Scotland and Wales) to add any comments. The Chancellor of the Exchequer and the Chief Secretary, Treasury will have views particularly on the eligibility test and the loans issue. The Lord President and the Paymaster General may wish to contribute on the Parliamentary and political dimension.

CONCLUSIONS

11. The consultation documents will need to be finalised for publication. You will wish the meeting to decide what should be said in them about:

a. the reasons for assisting home-owners with improvement and repair;

b. the eligibility test;

c. the substitution of loans for grants (either completely or in a more limited way).

C J S BREARLEY

1 March 1985

APPENDIX A

PROPOSED TOLERABLE STANDARD FOR HOUSING IN ENGLAND AND WALES

A dwelling shall be held to meet the tolerable standard if it

a) is structurally stable;

b) is substantially free from rising or penetrating damp;

c) is free from serious and dangerous structural disrepair;

d) has adequate natural lighting and ventilation;

e) has an adequate piped supply of wholesome water available within the dwelling;

f) has a sink provided with a satisfactory supply of both hot and cold water within the dwelling;

g) has a water closet available for the exclusive use of the occupants of the dwelling and suitably located within the dwelling;

h) has satisfactory personal washing facilities;

i) has an effective system for the drainage and disposal of foul, waste and surface water;

j) has satisfactory facilities for the preparation and cooking of food;

k) has satisfactory access to all external doors and outbuildings.

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APPENDIX B

THE 10 POINT/30 YEAR STANDARD

A dwelling will reach the 10 point/30 year standard if it

- is likely to have a useful life of at least 30 years;
- is in reasonable repair;
- has all the standard amenities; and

i) is structually stable

ii) is substantially free from rising or penetrating damp

iii) has adequate natural lighting and ventilation;

iv) has adequate and safe provision throughout for artificial lighting and has sufficient electric socket outlets for the safe and proper functioning of domestic appliances;

v) has an effective system for the drainage and disposal of foul, waste and surface water;

vi) has a satisfactory internal arrangement and satisfactory access to all external doors and and outbuildings;

vii) has satisfactory facilities for the preparation and cooking of food;

viii) has adequate facilities for heating;

ix) has proper provision for the storage of fuel (where necessary) and for the storage of refuse; and

x) has adequate thermal insulation in the roof-space.

The Income and Savings Test

1. Eligibility is determined by the gross income and savings of the head of the household and partner. Those with incomes of less than £10,000 and savings of less than £4,000 would be eligible for grant. All those on means-tested benefits would be eligible automatically. About 1.3 million households would be eligible for grant in principle.

2. Access to grant for those meeting the basic test would then be controlled by a taper as follows. (Only those with savings under £4,000 eligible.)

Annual Income	Share of Costs met by applicant	Maximum Amount of grant*
Less than £6000	25 per cent of eligible work	75 per cent of eligible work
Less than £8000	First £1000 of eligible work + 25 per cent of rest	75 per cent of costs above £1000
Less than £10,000	First £2000 of eligible work + 25 per cent of rest	75 per cent of costs above £2000

* Authorities may pay lower rates of grant at their discretion

10 DOWNING STREET

Prime Minister

This sets out the agreement which Mr Jenkin had reached with the Chief Secretary on meeting the costs arising from deregulating the private rented sector. Following discussion at Cabinet Ministers are looking again at this. These effects will, however, be swamped by the potential savings from the review of housing benefit.

AT
28/2

019/104

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CCNO

DMB 28/2

Mr Turnbull

To see.

DMB 28/2

Treasury Chambers, Parliament Street, SW1P 3AG

John Ballard Esq
Private Secretary to
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LondonSW1P 4QJ

28 February 1985

Dear John

DEREGULATION OF PRIVATE SECTOR RENTS

Following discussion in H Committee yesterday of the proposals described in H(85)15 to deregulate private sector rents, your Secretary of State and the Chief Secretary met to consider further how the additional housing benefit costs of the proposed deregulation should be met.

It was acknowledged that estimates of the likely additional expenditure on housing benefit were uncertain but that the best estimate which could be made was as follows:

England only

	(£m cash)
1986-87	8
1987-88	38
1988-89	51

In addition, there would be expenditure in Wales of £0.3 million, £1.1 million and £1.2 million respectively in the 3 years.

The Chief Secretary and your Secretary of State agreed that your Secretary of State would find from his existing programmes all the additional cost in the first year and half the additional cost thereafter - that is, he would transfer the following amounts to meet the additional costs

	(£m cash)
1986-87	8
1987-88	19
1988-89	25.5

The Chief Secretary agreed that in order to allow these proposals, to which he attached a high priority, to proceed

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he would in this case be prepared to find the remaining cost from elsewhere within the planning total. It was agreed that your Secretary of State would find the same cash savings whether the estimated costs of deregulation were higher or lower than estimated.

In agreeing to proceed in this way the Chief Secretary said, and your Secretary of State acknowledged that, in the next and subsequent Surveys the Chief Secretary would take account of the savings made by your Secretary of State and the total cost of deregulation in discussing his overall programme totals.

I have reported the outcome of this discussion to Colin Jones (Welsh Office) and to Stephen Hickey (Department of Health and Social Security) and understand they too are content to proceed on this basis.

I am copying this letter to Andrew Turnbull (No. 10) to the Private Secretaries of members of H Committee and to Sir Robert Armstrong.

Yours sincerely

Richard Broadbent

R J BROADBENT
Private Secretary

28 FEB 1985

Prime Minister (2)

PRIME MINISTER

27 February, 1985

PRIVATE RENTED SECTOR

H Committee decided this morning that proposals for deregulation of rents and of security of tenure for all new lettings in the private rented sector, leaving existing tenancies unaffected, should be put into a Housing Bill for the 1985/86 session.

We strongly support these proposals, which will help job mobility and should be seen as a vital part of our jobs strategy. In the longer term there will be PSBR savings of £100m-£200m a year. Also, homelessness will be reduced, market restrictions will be removed and competition will increase.

As a result of H's conclusion, Cabinet tomorrow will have two matters to decide. First, should legislative time be allocated to a Housing Bill? Secondly, who should bear the short-term PSBR cost of £21m in the first full year of deregulation?

We recommend that H's conclusion should be supported: a place for a Housing Bill should be found in the 1985/86 timetable. John Redwood's note* suggests which Bills might be left out to make way for this important piece of deregulation.

We also recommend that the very small short-term cost of the proposal (which arises because extra housing benefit is payable on the higher rents which landlords will receive) should be borne by the Treasury because it will, within two or three years, recoup many times the cost in higher tax on rents, less mortgage tax relief, lower non-income-related subsidies and less need to build new public-sector housing.

Treasury are right, in general, to ask Departments to find the cost of policy changes, but in this case there is a real danger that an important policy could be put at risk because of arguments over a modest (and probably overstated) sum.

CHRISTOPHER MONCKTON

CM.

* in Cabinet folder

PRIME MINISTER

HOME IMPROVEMENT POLICY

It has, as you know, unfortunately been necessary to set up the meeting you are chairing on this subject for 6 March when I shall be in China. I thought I should let you have my views in writing before I depart.

If I were able to attend the meeting, I would want to argue the case for inclusion in the proposed consultation paper of a passage setting out the option of home improvement loans. Your Private Secretary's letter of 21 January to Patrick Jenkin's Private Secretary voiced doubts about this option on two main grounds:-

i that at least one version of the terms for loans canvassed in the draft consultation paper would be unlikely to offer much in the way of savings as compared with a grants system; and

ii that the proposed condition whereby a loan would only be offered in cases where a bank or building society had refused to lend might have awkward political implications.

Patrick Jenkin and Nicholas Edwards have now circulated a policy paper on their proposals which largely disposes of the second point by discarding the condition in question. The paper does, however, cast doubt upon the loans system by suggesting that the savings it would throw up would be small

in the early years, and by placing stress on the disincentive effect of loans on applicants, especially pensioners.

I have to say I found the section on a possible scheme of loans in the policy paper very disappointing. It is not in my view a balanced assessment of the arguments for and against the scheme. It is almost exclusively preoccupied with the case against loans and pays little attention to the favourable aspects of such a scheme.

The arguments in favour of a system of loans are of course essentially financial ones. Home improvement grants have been identified by the Cabinet as an appropriate target for public expenditure. Loans provide a means by which such reductions could be achieved without reducing total investment in private sector improvement. Savings will not be spectacular in the early years, but I have seen calculations by the Policy Unit which suggest that the figures for savings put forward in the DoE/Welsh Office paper may be substantially understated. In the longer term there is little doubt that considerable savings are achievable, even with historic-cost rather than equity-sharing or deferred interest loans.

It may be argued that the financial savings arising from loans in the longer term would not justify the short-term political cost. It seems to me, however, that a system under which grants were paid to those most in need of help and loans were made to those least in need of help would not be politically difficult to sell, and could be even more positively presented to the extent that any of the savings secured were recycled in the form of additional grants or loans. The policy paper makes a good deal of the likely reluctance of the elderly, in particular, to take on a loan.

If that is the case, it may mean that it is necessary to consider whether pensioners, in addition to people on low incomes, should automatically be eligible for grants, but it certainly should not be reason for ruling out loans entirely.

The concept of loans was introduced at a rather late stage, after a decision to revise the grants system had been taken. It is not surprising therefore that the concept shows signs of needing to have rather more work devoted to it before it is ready to be put into operation. Some of that work could be devoted to producing a scheme that is reasonably straightforward administratively, which I am sure is possible.

I am convinced that it would be wrong to discard the loans option at this stage and I hope the decision of your meeting will be to include it in the consultation document.

I am copying this minute to those who will be attending the meeting on 6 March.

Stephen Ratcliffe

for D.Y.

[approved by the Minister without Portfolio and signed in his absence]

27 February 1985

ED

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

B/f for meeting on 6 March.
DMB
27/2

A C Allberry Esq
Private Secretary to the
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

27 February 1985

Dear Andrew,

PRIVATE SECTOR HOUSING IMPROVEMENT POLICY

Thank you for copying to me your letter of 11 February to David Barclay at No 10 enclosing the policy paper prepared by your Secretary of State and the Secretary of State for Wales.

Although the draft consultation document currently under discussion relates only to England and Wales, my Secretary of State has a direct interest in the issues involved. Following consideration of the general principles by H Committee last October, he was charged with producing a parallel document for Scotland and work on this is now virtually complete. The draft Scottish consultation document largely reflects the proposals and policies set out in the document for England and Wales. My Secretary of State therefore plans to participate in the meeting now arranged to be chaired by the Prime Minister on 6 March.

Meantime you may wish to note that my Secretary of State has read with interest the policy paper accompanying your letter and believes that it correctly addresses the issues involved. He takes the view that the Government has an interest in the standard of the private sector housing stock and that this requires a proper balance to be struck between public expenditure considerations, both immediate and long-term, and the need to preserve and improve that stock. In that context, he would wish to ensure that public sector assistance is properly targetted on those people and properties most in need of it, while also giving due weight to the fact that the scheme must be sufficiently attractive to its potential users to afford realistic prospects of actually achieving the desired ends.

Having regard to these considerations, my Secretary of State believes that the conclusion drawn in the final paragraph of the policy paper, in favour of a properly targetted grants system, is the correct one. Although a deferred interest or equity sharing loan scheme has public expenditure attractions, particularly in the long-term, it would be complex to administer and would almost certainly be unattractive to potential users. While the public expenditure

considerations might possibly outweigh the disincentive effect so far as substitution for discretionary grant is concerned, they would not do so in the case of substitution for mandatory grants. Loans in the latter case could very seriously hamper efforts to preserve and improve the worst properties. For similar reasons, my Secretary of State is not attracted to the idea of using pensionable status as the sole test of eligibility for grant assistance. As the policy paper indicates, this would have the effect of both including many people who do not strictly need the help and of excluding a still larger number who do.

I am copying this letter to the private secretaries to members of H Committee and to David Barclay at No 10 and Richard Hatfield at Cabinet Office.

Yours sincerely,

John S. Graham

J S GRAHAM
Private Secretary

Housing
Policy PKS

27 FEB 1985

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CCNO

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-233 3299

From the Minister without Portfolio

The Rt Hon Lord Young of Graffham

The Rt Hon The Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
London SW1A 2AT

26 February 1985

nbpm for now
DMB
26/2

Dear Willie,

PRIVATE RENTED SECTOR

As you know, I am about to go to China for two weeks and shall therefore not be able to attend when H Committee discusses the private rented sector on 27 February.

2 The paper (H(85)15) which Patrick Jenkin and Nicholas Edwards have circulated has been produced in the wake of several discussions I have recently had with them on the issue. It is therefore most disappointing for me (though of course unavoidable) that I shall miss the discussion. In the circumstances, I thought I should let you, and H Committee colleagues, know of my views in advance of the meeting.

3 In essence, my position is one of strong support for the proposals set out in H(85)15. I am delighted that Patrick and Nicholas have elected to come forward with radical proposals. I am convinced that unless we provide for full scale deregulation of security of tenure for all new lettings, as well as of rents, we shall completely fail to stem, let alone turn round, the current rapid decline in the private rented sector.

4 My interest in this issue stems in particular from my wish to see obstacles to labour mobility removed. It is well established that tenants in the private rented sector are more readily mobile than owner occupiers or (leaving aside short-range moves) people in public sector accommodation.

5 But I would claim a further, fundamental interest in this matter. As you know, one of my major remits is to seek the removal of unnecessary burdens and regulations on

business. The current restrictions on private letting are such a burden, in my view, whether in their application to individuals with flats available in their houses or companies with whole blocks to let. In both cases, they militate against the possibility of a reasonable return on the landlord's asset and his freedom to dispose of his asset if he wishes to do so, and thus prevent the market from operating freely and deprive people who need accommodation of the opportunity of obtaining it. As such, the restrictions must be unacceptable to us.

6 When H last considered this issue it took the view that the modest form of deregulation then being proposed was not sufficient to justify the forecast public expenditure consequences. The proposals now before us are considerably more radical and the cost forecasts are substantially more favourable, though not in my view as favourable as they should be. You will note that the prospect of PSBR savings increases as assumptions of the numbers of new lettings increase. My view is that the paper understates this increase and that we can look to higher and earlier PSBR savings than are postulated there. Alan Walters took a similar view when earlier costings were circulated. My own guess is that there will be no net PSBR cost even in the early years of deregulation. I acknowledge the complexity of the calculations involved, but I wonder how in the context of our other policies and our general philosophy we could possibly justify on economic grounds a decision not to deregulate and thus to allow the market to remain distorted.

7 While not underestimating the controversy the new proposals would arouse, I believe the great majority of our supporters will recognise the validity of them and, as the paper acknowledges, there are many who are expecting nothing less. I very much hope that H will grasp this opportunity to take effective action.

8 I am copying this letter to the Prime Minister, Members of H Committee and Sir Robert Armstrong.

Yours ever

Nigel

HOUSING: Policy.

BF

MR ADDISON (on arrival)

Home Improvement Policy/Private Rented Sector

A meeting has been arranged for 6 March at 1730 to discuss home improvement policy. The main paper is a note by the Department of the Environment on this file, which was circulated under cover of Andrew Allberry's letter to me of 11 February. This was a redraft of an earlier version, on which the Prime Minister commented very adversely.

I have asked Mr Brearley of the Cabinet Office to provide a brief. Mr Monckton of the Policy Unit will also provide a note, which may or may not be useful.

The Policy Unit are most anxious that the meeting should also cover the private rented sector, about which DOE are supposed to be circulating a paper to H Committee. The Prime Minister has agreed in principle to this, but you should keep in touch with Mr Brearley to make sure that no wires are crossed. As of today, the paper has not been circulated.

DJB

David Barclay
21 February 1985

D.B.
1730 - 1830
on 6 March
No 10.
CR
18/2

10 DOWNING STREET

Lord Pres. ✓
S/Exr. ✓
Min Hsing ✓
P/Sec ✓
P/Wales ✓
P/DHSS ✓
P/T ✓
P/Emp. ✓
Ch/Ex ✓
Chancellor ✓
LPS ✓
P.G. ✓
China → ~~Lord Jenkins~~ ✗
N. Brearley ✓
+ Mr Lingard (attend item) M. Morritt ✓

MRS. RYDER

Could you please arrange a meeting on Home Improvement Policy on either 4, 5 or 6 March, to last about an hour. The meeting will consider the paper which DOE circulated with Andrew Allberry's letter to me of 11 February.

The following should be invited: Lord President, Secretary of State for the Environment, Minister for Housing and Construction, Secretaries of State for Scotland, Wales, Social Services, Trade and Industry, Employment, Chancellor of the Exchequer, Chief Secretary, Lord Privy Seal, Paymaster General, Minister without Portfolio, Mr. Brearley (Cabinet Office) and Mr. Monckton (Policy Unit).

Good luck!

DMB

(DAVID BARCLAY)
18 February 1985

Arranged for:-
1730 - 1830
6/3/85 No10.

4/5/6

10 DOWNING STREET

Prime Minister (1)

There is no need to read the main papers before your USA trip.

But could you please answer the questions on attendance in my note immediately below?

DMB
15/2

CONFIDENTIAL

B/f on 22 Feb pre
DMB
18/2

Prime Minister (1)

Agree to include this subject on the agenda for a meeting on housing (see separate note on home improvement)?

Yes

DMB
15/2

15 February 1985

PRIME MINISTER

PRIVATE RENTED SECTOR

To secure the job-creating, labour-mobilising advantages of a vigorous private rented sector (as in the United States) radical and courageous decisions are needed. Anaemic proposals were put to H Committee last year, and were rejected because they were judged to be ineffective and costly.

The costings on which that decision was taken were misleading, according to further research which we have carried out, assisted by Alan Walters. DoE now accept that the extra public expenditure cost of deregulation will be small and short-lived, and that thereafter, substantial savings will be achieved. We estimate that these could amount to £100-200 million a year after 5 years.

DoE and the Welsh Office will shortly be putting revised proposals to H Committee. The new proposals will leave existing lettings untouched and focus on new lettings. They will propose deregulating rent levels but, once again, will fail to grasp the nettle of security of tenure. This will be reduced, from lifetime plus two successions to lifetime plus tenant's spouse, but will still act as a powerful deterrent to potential landlords.

CONFIDENTIAL

E.R.

CONFIDENTIAL

Because the politics of this subject are so ticklish, and its implications so far-reaching for enterprise, jobs, mobility and welfare, you may wish to consider whether you yourself wish to chair the discussion of this topic, possibly by including it on the agenda of your forthcoming meeting on home improvement policy.

Michael Scott Orr
pp CHRISTOPHER MONCKTON

E.R.

Revised by Policy Unit.

PRIME MINISTER

DMB 15/2

HOUSING : HOME IMPROVEMENT AND PRIVATE RENTING

Home improvement

Patrick Jenkin and Nicholas Edwards have produced a policy paper on home improvement with particular reference to loans, about which you had expressed concern. We shall brief you on home improvement shortly before your forthcoming meeting on the subject.

Private rented sector

DoE and the Welsh Office have also circulated to members of H Committee their revised proposals for the private rented sector. The only major difference between the proposals rejected by H last July and the present proposals is that DoE now accept that the extra PSBR cost of deregulating the private rented sector will be small and will be confined to the first couple of years after deregulation. Thereafter, substantial savings will be achieved. We calculate that, even now, DoE have underestimated the savings from deregulation, which could reach **£100-200m a year** after five years.

Existing lets

Existing lettings will be left untouched under DoE's proposals, since it would be politically unattractive, if not impossible, to take away from existing rent-controlled tenants the guarantee of a low rent on the basis of which they entered into the tenancy.

E.R.

New lets

New lettings, under DoE's proposals, will be freed from controls on rent levels. But security of tenure will not be deregulated. Tenants will still have lifetime security of tenure, the only minor change being the restriction of the right of succession to the tenant's spouse, as opposed to the present lifetime security plus two successions.

Conclusions

These proposals do not go far enough to be worthwhile. There is no point in exposing ourselves to the political flak that deregulation will attract unless security of tenure is deregulated as well as rents. Economic rents alone will do no more than slow the decline of private renting: if we want the job-creating, labour-mobilising advantages of a vigorous private rented sector (as in the United States), we must be radical and courageous enough to legislate to allow landlords and tenants the right to decide freely not only what rent will be paid but also how long the tenancy will last. Potential landlords who know that, if they let their property, they will lose it for a lifetime are not likely to become actual landlords in any significant numbers.

We recommend that you should call an urgent meeting with Patrick Jenkin, Nicholas Edwards and Ian Gow, before the H discussion of their proposals. Deregulation of the private rented sector is too important a part of our strategy for jobs and enterprise to be let drop for a second time.

CHRISTOPHER MONCKTON CM. 15 February, 1985

E.R.

ANNEX A : DEREGULATING PRIVATE RENTS - COSTS OR SAVINGS?

Deregulation of new lettings in the private rented sector will bring large PSBR savings. True, deregulating rents puts up the cost of housing benefit rent allowances as existing regulated tenancies come to the end of their life and are replaced by deregulated tenancies at higher rents (DoE now put this extra net PSBR cost, allowing for some extra tax paid by landlords on the higher rent, at **£14.5m** in year 1, rising to **£36m** in year 5).

But this cost is offset by reductions in mortgage interest relief because deregulation will allow many wholly new lettings to be made and will give young people the chance and the choice to begin life by renting rather than buying (DoE put this saving at **£8m** in year 1, rising to **£75m** in year 5). So even on DoE's estimates, the net cost of deregulation will be small and confined to the short term, while there could be substantial savings in the medium term.

Although these figures are much more realistic than DoE's previous submission to H, we continue to think them pessimistic: savings could reach as much as **£200m a year** in the medium term, particularly if security of tenure as well as rents were deregulated. The more the private rented sector expands, the bigger the savings will be. Alan Walters, who has helped us in calculating the possible savings, agrees that savings would be considerably greater than DoE think. His note is attached.

NOTE BY ALAN WALTERS

Notes on Rent Deregulation

General

1. Decisions should be made on a Cost-benefit (CB) calculation and not on a net PSBR criterion. The net PSBR calculation ignores, for example, the net benefits accruing to landlords--except insofar as they are taken in tax. If deregulation were to result in a fourfold increase in rents, then the net PSBR cost would be very large--because of the concomitant increase in subsidies. But such a conclusion would ignore the enormous benefits of deregulation manifest in the higher rents (productivity) of free property.

   [Note: General genuine benefits to the private and public sectors are shown with a small b, whereas Benefits such as Housing Benefits (HB) or Social Security Benefits, which are transfers from taxpayers to recipients, are shown with a capital B.]

2. The absurdity of the D of E criterion can be illustrated by reversing the argument. If we legislated more stringent rent controls by forcing down rents (and extending the regulations) then the (D of E) PSBR would be reduced; just as controlling the price of food would reduce Social Security benifits and so the PSBR. This provides a justification for general price control, just as the D of E criterion supports the continuation of rent control. Of course we have had enough experience with freer markets in food, electronics, furniture, etc., to know that the D of E type of case is laughable and petty. But in housing, regulated for 75 years, they are no laughing matter.

3. The D of E calculation is a flow figure for two particular years. The appropriate calculation, as any text will reveal, is the net present value. This takes account of all future revenues and costs discounted to an equivalent capital sum (now or at some other specified date). By D of E admission, most of the "negatives" occur in the first year or so and many of the big benefits appear in the medium term, so the misuse of flow figures biases the decision in favor of increased or more stringent regulation of rents.

4. Clearly D of E have selectively, and in my view rather crudely, presented data arguing against change. There may be a good political case against deregulation but one should not cloud the issue with a manifestly phoney pseudo-economic or financial case. Whatever the political costs, the net economic benefits--including those on public finances--would be overwhelmingly positive, and similar to those which appeared in all the great liberations, such as Germany in 1948, or the United Kingdom in 1951-54.

Particulars

Monckton's Note to Ian Gow

* Labour's Promised Repeal

One should also recall that the early years of the next government (1988) will see the opportunity to restructure taxes and benefits. Even a Labour government (or an SDP-Liberal government a fortiori) will want to rationalise the HB system and the rapidly dying private rental sector (down to 1.5 million by then at present rates of attrition). In 1987-88 we expect the computeristion of the tax/benefits system.

* Security of Tenure

Note that the present system precludes the freedom of negotiation; the imposition or threat of "fair rent" (what a wonderfully deceptive term!) which are required not to reflect "shortages" pre-empts any possibility of mutually beneficial free bargains. Would not an extension of the leasehold system with agreed tenure and rent arrangements do the job of assuring landlords and tenants of their rights?

* HB Cost

In addition to the amendments and addenda of the Monckton memorandum, which seem to me to be correct, I would argue that the tax receipts from the increased rents are still much underestimated (or alternatively the landlords are in the poorer sections of the community, perhaps among the benefit recipients--do we know?).

It is astonishing that the marginal benefit rate, with respect to rent increases, is 42.5 (or 43) percent, whereas the marginal tax rate is only 18 percent (i.e. L45 million in year 5 on income of L257.5+ million). If this is income and corporation tax, then landlords must be a poverty-stricken lot--and quite different from their image.

But apart from that point, the calculations presumably assume that the landlords spend their income on food and newspapers which are zero rated for VAT--an unlikely proposition perhaps except, again, insofar as they are on the poverty line--and then we must count the reduction in Benefits brought about by their increased income. And if the landlords save all their additional income then they will accumulate future tax obligations--income, outlay and capital gains taxes--in the future. Thus the future PSBRs would fall continuously. Similarly the reduction of 20 percent for repairs implies either no new activity (and this is unlikely in a sector like house repairs) or no income tax or VAT paid by the repairmen.

THE PRIVATE RENTED SECTOR: SAVINGS FROM DEREGULATION

The more thoroughly new lettings in the private rented sector are deregulated, the larger the PSBR savings will be. This short note explains why.

DoE put a paper to H Committee last July saying that deregulation puts up the cost of housing benefit rent relief because free-market rents are higher than controlled rents. It was suggested that the extra public cost would be £35-60m in year 1 after deregulation and £75m-£110m in year 5.

At our request, DoE have done further work on these figures. Their latest estimates, which will appear as an annex to the forthcoming paper for H on deregulation, put the net PSBR cost at £14.5m in year 1 and £36m in year 5. This significant downward revision is because:

1. DoE now accept that the most likely outturn is at the bottom end of the range rather than the top (their calculation for the top end of the range had made no allowance whatever for loophole lets, lets already at market rent and lets where HB was due but not claimed).

2. Results of a new lettings survey by the Office of Population Censuses and Surveys show that the rate of existing "loophole" lets is twice as high as originally estimated, reducing the number of lettings for which a higher amount of HB than at present would be claimed.

3. Landlords would pay income tax on the higher rent from tenants of deregulated lettings.

4. Fewer improvement grants would be payable to landlords: in future the only rented properties which will qualify for grants will be those with controlled rents.

At our request, DoE have now also calculated the fiscal effects of an increase in the supply of privately-rented accommodation as a result of deregulation. Their previous calculation had been confined to the turnover of existing lettings. The new calculations show a saving of £8m in year 1, rising to £95m in year 5. The saving comes from reduced liability to mortgage interest relief which would otherwise have had to be credited to households who cannot now rent but would rent privately rather than buy if they were given the chance to choose. This saving is partly offset by increased HB on the new lets. DoE now conclude:

"... In the medium term there is a good prospect that such savings would materialise and that as a result deregulation would lead overall to a net reduction in public borrowing."

For what it is worth, my conjecture is that tax increases (income, VAT, fuel, excise taxes on tobacco and alcohol), would soak up more than 40 percent; if the tax rate is much lower (at 20 percent or less) then this must be because the marginal tax rate is low and the landlords are poor etc. The assumption that no new lettings will be made is characteristic of the perennial error of officials that the price system does not work. The lessons of the energy market etc. are ignored. Elasticity pessimism is as absurd as it is endemic (although it is true that distinguished dons, at Cambridge for example, regularly preach that the price system does not work). The fact that, because of uncertainties both economic and political, we cannot confidently predict the numerical consequences of new lettings is no excuse for making the blatantly false prediction that it will be zero. Indeed this zero prediction implies that there is a fifty percent chance of lettings being reduced by deregulation--again patently absurd.

BF 21/2

PRIME MINISTER

HOME IMPROVEMENT POLICY

The Department of the Environment have now circulated some revised proposals for inclusion in the Government's forthcoming consultation paper on home improvement policy.

In view of your serious doubts about the last version, I think that you will probably wish to take the chair yourself when the new proposals are discussed collectively. This will have to be after your visit to the United States, but it would be helpful meanwhile to have your guidance on attendance.

Those Ministers with a direct interest are as follows:

✓ Lord President (as Chairman of H Committee)
✓ Secretary of State for the Environment & Mr Gow
✓ Secretaries of State for Wales
✓ Scotland
✓ Social Services
✓ Chief Secretary
✓ Lord Privy Seal
✓ Paymaster General
✓ Minister without Portfolio

You may in addition like to consider inviting one or more Ministers with no departmental axe to grind.

Could you please indicate by a tick whether you would like any of the following present:

✓ Chancellor of the Exchequer
Secretaries of State for Defence
✓ Industry,
✓ Employment
Energy
Transport.

DMB

13 February 1985

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Summarised in paras 26-32

11 February 1985

Dear David

Thank you for your letter of 21 January, recording the Prime Minister's reactions to the draft Green Paper on Private sector housing improvement policy.

In the light of discussions which we have had with you and with the Policy Unit, my Secretary of State and the Secretary of State for Wales have decided that the best way forward is to provide a policy paper, setting out the problems which we are aiming to tackle; the unsatisfactory nature of the present home improvement grant system; and the implications of introducing new systems of grants or loans. This I enclose.

You indicated that the Prime Minister was particularly concerned about the treatment of the loans options, which was included in the draft consultation document at the suggestion of the Policy Unit at a later stage after 'H' Committee had agreed the lines of the policies on which consultation should take place.

On the point of establishing those eligible to apply for help, you will see that we have now discarded the possibility, canvassed in the passage on loans, of relying upon the decisions of the lending Institutions. We propose to rest upon tests to be applied by local authorities.

Your letter also raised two issues not directly related to the arrangements for a grant or loan system. So far as the relationship between home improvement grants and support for the construction industry is concerned, this was one of the stated objectives, albeit short-term, of the announcement in the 1982 budget of increased rates for home improvement grants and more resources for local authorities to spend on grants.

Whether it is important to help those private householders who find the prospect of renovation work daunting, depends on whether the private sector housing stock is to be regarded as a national asset. This is the assumption on which successive Governments' have based their policies.

Much of the Chief Secretary's letter of 18 January also dealt with the question of loans. The paper covers the issues which he raised as well as those in your letter. We are discussing with the Treasury his further points on the paragraphs in the Green Paper dealing with clearance and redevelopment. We will circulate a revised passage in due course.

I am copying this letter to the private secretaries to members of H Committee, and to Richard Hatfield at Cabinet Office.

Yours ever,

Andrew

A C ALLBERRY
Private Secretary

David Barclay Esq

HOME IMPROVEMENT POLICY

NOTE BY THE SECRETARY OF STATE FOR THE ENVIRONMENT

AND THE SECRETARY OF STATE FOR WALES

THE CONDITION OF OWNER-OCCUPIED HOUSING

1. The condition of the housing stock in England and Wales has been surveyed at broadly 5-yearly intervals since 1967. In 1981, there were 10.5 million owner-occupied dwellings in England and 0.6 million in Wales. The surveys carried out in that year showed that, of these, 2.5 million (23%) in England and 160,000 (27%) in Wales needed substantial improvement or repair work. The number needing major repairs (costing over £7,000 at 1981 prices) had increased from 314,000 in 1976 to 539,000 in 1981 in England and from 21,000 to 37,000 in Wales. The clear message was that statutory unfitness and increasing disrepair, rather than lack of basic amenities (bath, inside WC etc) were the major problems.

2. Many who live in poor housing are unaware of how much work needs doing. Fewer than 5% of those living in houses below the statutory fitness standard regarded them as "very bad". Even where the shortcomings were obvious, many, and in particular elderly people on low incomes, had no intention of putting them right.

3. Those whose houses are in greatest need of improvement or repair differ from the generality of owner-occupiers. They tend to live in their homes much longer (about 20 years compared with 7 years); are more likely to be above retirement age; and to have much lower incomes. In 1981, two thirds had gross incomes of less than £80 per week, compared with the then national average income of £115 per week.

THE PRESENT BASIS OF PUBLIC SECTOR INTERVENTION

4. Help is currently given to private householders by a system of mandatory grants for the installation of basic amenities and where local authorities have served notices, and by discretionary grants for major repairs and improvements. There are eligible expense limits, and maximum grant levels ranging from 50% to 90%. Eligibility is confined to those with Rateable Values (RVs) below £400 in London and £225 elsewhere.

5. Even in 1983-84, when a record 280,000 grants totalling about £1000 million were paid in England and Wales, spending on grants representedonly about 10% of total private sector expenditure on home improvement, maintenance and repair. At present about 14% of owner-occupiers are eligible for grants.

6. The objective since 1974, more strongly emphasised in 1980, has been to concentrate public help on the worst properties and on those households in greatest need of help. But while the existing system directs grants to the worst housing, it fails to exclude all those who could afford to finance essential works themselves (many of whom have indicated that they would have gone ahead without grant); and it fails to include many who cannot do so - essentially, because RVs are an inadequate test of ability to pay. The system therefore does not direct resources to those in greatest need and in some cases simply substitutes public for private expenditure. This lack of cost-effectiveness has been criticised by the Public Accounts Committee.

THE FUTURE BASIS OF PUBLIC SECTOR INTERVENTION

7. On 17 October "H" Committee approved (H(84)18th meeting) proposals

by the Secretaries of State for the Environment, Wales and Scotland (H(84)28) for revised policies to secure the repair and improvement of private housing and to improve the cost-effectiveness of Government assistance. The Secretaries of State were invited to produce separate documents for England and Wales and for Scotland setting out these policies for the purpose of consultation. The draft consultation document for England and Wales was circulated to "H" Committee members on 7 January.

Objectives

8. An important objective of the proposals in the draft consultation document is to encourage increased private expenditure. Responsibility for repair and improvement should rest first and foremost with individual householders, and it is important to maintain spending on repairs so that the problems revealed by the 1981 survey do not become worse. The proposals in the consultation paper on warranty schemes (para 15) and agency services (paras 21-24) are designed to encourage private householders to spend their money and to marshal the support of the lending institutions.

Eligibility for Help

9. But some people are too poor to borrow and do not have enough savings. They need financial help to carry out timely repair and renovation, especially if their property is in a bad state. Where such public support is necessary, the targeting must be significantly better than that achieved by the present RV-based system. And the test of ability to pay must be cheap to administer and should not deter applications from those we are anxious to encourage.

10. Our preferred method, agreed by "H" Committee, is, first, to passport those eligible for Family Income Supplement (FIS) and Supplementary Benefit; and for others, to apply a test of income and savings, broadly of the kind adopted by banks and building societies (who should be the primary source of funds for private householders who need to borrow to fund repairs or improvements). These tests would apply whether help was mandatory, or discretionary. Those below the test levels of income and savings would be eligible to apply for help. The extent of help would be determined by applying a tapering system which related costs to resources as a broad indication of the ability of individuals to meet at least some, if not all of the costs themselves. These proposals may be criticised as adding to the body of generally unpopular means-tested benefits. But help for home improvement or repair is different from income support benefits in being one-off and for substantial amounts, running into several thousands of pounds. The eligibility test and the tapering system are described in paragraphs 9 to 14 of Annex III to H(84)28.

11. Old age pensions are not of course means-tested and therefore do not constitute a criterion for accurate targeting. Nonetheless, there would be some political attraction in making OAPs automatically eligible without a means test; and OAPs do of course include a large proportion of the poorest people in the worst houses. This is particularly the case in Wales. However, to "passport" OAPs would include 120,000 OAP households nationally who we estimate could afford to do the work. Accordingly, when "passporting" of OAPs was suggested by the Secretary of State for Wales, it was rejected by H Committee (page 4 of H(84) 18th meeting). Alternatively, confining mandatory grants to OAPs, would exclude

61% of those living in the very worst housing, unable to finance the necessary repairs or improvements, for whom help would then depend upon applying for discretionary grants.

12. Under our preferred method a further 100,000 owner-occupiers would become eligible and 300,000 would be removed from eligibility leaving a total of around 1.3m eligible in principle. This would include 630,000 OAPs (84% of OAPs living in property whose condition justifies either mandatory or discretionary help).

Form of Help

13. The proposed test identifies those eligible to apply for help - because they are unable to fund all or part of the works from savings or conventional borrowing. Consideration then needs to be given to the form the help should take.

Grants

14. Our preferred option is to continue with a system of grants, as described in paragraphs 29-30 and 34-36 of the draft Green Paper. Home Improvement Grants are familiar to applicants and administering authorities. The changes could be justified on grounds of more cost-effective use of resources (an aspect on which the present system has been widely criticised), following a deliberate, short-term boost to expenditure under the present system. It would be difficult for critics to suggest that the form of help per se represented any lessening of commitment by the Government, either to the repair and improvement of the private sector housing stock as a whole, or to the help given to those

marginal purchasers who have moved into home ownership at the lower end of the market. The increasing and disturbing trend towards disrepair in the private sector stock, even under the present system, justifies maintaining a grant system for people and dwellings most in need, to prevent costlier public expenditure in the future.

Loans

15. A more radical alternative, which over the longer term would save money but which would be much more controversial, would be to replace grants by loans. Before assessing the advantages and drawbacks of this approach there are two issues to be considered about the form of loans.

16. The first is the timing of repayments. The proposed test of eligibility coupled with the operation of the taper is designed to bring in Government help only when individuals are judged to have exhausted their capacity for commercial borrowing involving regular payments. Loans from the public sector would, in effect, be "top-up" loans and repayment of them would have to be financed from the value of the property when it is realised. An exception to this general pattern would be premature redemption by individuals whose financial circumstances had significantly improved.

17. The second issue is the terms of repayment. The amount to be repaid could be the cash sum advanced or this amount plus deferred interest or a sum linked to an equity share in the property.

18. To require a return on the public investment would recognise that any increase in the value of the property attributable to

that investment would be a windfall gain to the owner. Deferred interest or equity share loans would in principle therefore be "fairer" to tax payers as a whole, as well as producing more public sector receipts.

19. The advantages and disadvantages of adopting loans, and the choice between different forms rest upon:

- the size and timing of public sector receipts;

- the administrative arrangements; and

- the effect on take up by those we are anxious to encourage to carry out essential work.

Expenditure Implications

20. Loans, like grants, count as public expenditure when they are made. Savings in public expenditure would materialise only when loans were repaid. On the basis of the assumptions and method of calculations set out in Annex A the following table illustrates for England and Wales the relationship between expenditure and capital receipts, at certain points over a 20-year period, for a cash expenditure of £100m in year 1, increasing by 3% a year. It is based upon data relating to English and Welsh grant recipients under the present system. Despite the relatively poor targeting of this system, it directs the majority of grants to those who, as a whole, tend to remain in their homes for longer than the generality of owner-occupiers. This tendency is more pronounced in Wales. Improved targeting would increase this effect, thus extending the time-lag before loan repayments produced significant

receipts. The table therefore overstates the potential benefits under the proposed new system of targeting on the poor.

Interest free loans

	Capital receipts in year from loan repayments (England)	(Wales)	Spending in year on new loans
Year 5	£18m	£ 6m	£113m
Year 10	£38m	£13m	£130m
Year 20	£89m	£40m	£175m

Equity-linked or deferred interest loans

	(England)	(Wales)	
Year 5	£19m	£ 6m	£113m
Year 10	£45m	£15m	£130m
Year 20	£128m	£60m	£175m

Administrative arrangements

21. Annex B describes the administrative arrangements necessary to operate the various types of loan. These are all to a greater or lesser extent more complex, and thus more costly to administer, than a grants system. A number of difficult issues arise: for example, dealing with transfers by inheritance rather than sale; selecting an interest rate which, when rolled up, does not result in a debt greater than the value of the property; accommodating charges or equity shares where the property is already the subject of bank or building society charges.

22. None is intrinsically insuperable. But they add to the complexity of the system, at a time when one of our declared aims, set out in the draft Green Paper, is to simplify an already over-complex system; to reduce running costs; and to improve take up. They would involve additional burdens upon the local authorities.

The disadvantages of loans

23. Under the present system of grants, far fewer elderly people and people on low incomes apply for help than the numbers eligible would suggest. Loans would be much less attractive to them than grants. The elderly in particular are well known to be reluctant to put themselves into debt. They usually own their own homes outright, which they prefer to pass on to their heirs unencumbered. Introducing loans will therefore be strongly attacked as making it even less likely that elderly people will apply for help. They would be perceived as a weakening of the Government's commitment to the repair and improvement of private housing.

24. This disincentive effect will be even greater with equity-linked or deferred interest loans, if it is perceived that the amount to be repaid will gradually increase. With an equity-linked loan, the owner will know what proportion of the value of the property he or she will have to pay to the local authority. With variable rate deferred interest loans, there will be greater uncertainty. Doubts about taking on a loan of this sort may deter many low income home-owners from embarking on repair or improvement at all.

A mixed system

25. A possible compromise would be a system which provided grants

where mandatory help was appropriate (ie for the worst housing) and loans for discretionary help. This would reduce the disincentives for the 40% of those capable of passing the test of eligibility who are possible candidates for mandatory help. But it would reduce the potential for public sector receipts; and it would further increase the complexity of the system and add to the work and costs falling on the local authorities.

SUMMARY AND CONCLUSIONS

26. The present system is inefficient. A third of those eligible could afford the necessary work without public sector help, but over 100,000 owner-occupiers who cannot afford essential improvements or repairs are ineligible. A new approach is needed to improve the cost effectiveness of public sector help. The principle should be that help is limited so far as possible to those householders who could not afford themselves to finance essential improvement or repair from savings or through bank or building society loans.

27. A simple "passporting" system - confining eligibility to those in certain groups, such as Old Age Pensioners or those receiving Supplementary Benefit or Family Income Supplement - would exclude many of those in need of help, who do not come within these categories.

28. For these reasons, we continue to favour the incomes and savings test, approved by 'H' Committee on 17 October. Such a system would secure a broadly satisfactory targeting of help on those who need it, without the complications associated with full means testing of the kind used for Supplementary Benefit. We

believe that the decision to adopt such a system could be justified.

29. For the form of help for those found eligible, the choice is between grants and loans. Both count as public expenditure, and whichever is adopted there is no case for making help available to those who can afford to do the work themselves.

30. Interest-bearing or equity-linked loans are fairer to tax-payers as a whole. They will also generate capital receipts. However, because of the slow turnover of property among those concerned, these will remain low for several years. Against this have to be set the undoubted disadvantages. They would be cumbersome for local authorities to administer. They would also deter many of the very people, particularly the elderly, whom we want to help. They would certainly be criticised as a substantial weakening of our commitment to helping owner-occupiers to carry out essential repairs and improvements, and to the encouragement of home ownership.

31. A mixed system of grants and loans produces some reduction in disincentives to take up; but at the cost of lower receipts and increased burdens on the local authorities.

32. On balance we recommend a well targeted system of grants, which would offer clear gains in cost effectiveness, and simplicity of administration and which holds out the prospect of satisfactory levels of take-up.

ANNEX A

LOAN REPAYMENTS

1. In calculating the capital receipts which would be produced by home improvement loans the most important assumption is the proportion of loans repaid in each year. Distribution of Grant Enquiries carried out in England and Wales in 1983 collected information about the length of time that those who had received home improvement grants intended to remain in their homes. Based on this evidence we have assumed that in England 3⅓% of the loans given in any year would be repaid in each subsequent year. The equivalent Welsh data indicate that a lower figure of just over 1% a year in the earlier years should be adopted. The annual average rate of repayment of normal bank and building society mortgages is 5%. But the characteristics of those who would be eligible for loans for improvements and repairs are very different from the generality of mortgagors; they will tend to be older and on lower incomes. Indeed, it is likely that the better the targeting of loans on those who need them most, the slower the rate at which the loans would be repaid.

2. For the purposes of the calculations we have assumed an inflation rate of 3% a year, and that the amount spent by local authorities on loans rises in line with this.

Interest-free loans

3. The capital receipts which would accrue under a system of interest-free loans are the product of these two assumptions. While authorities' new lending on loans rises gradually to compensate for inflation, the repayments which are being made cover only the original cost of the loans.

Equity-linked and deferred interest loans

4. With loans which are linked to a share of the equity, we have assumed that house prices rise on average by 1% more than the overall rate of inflation - ie 4%. This means that the amount owed to the local authority rises by the same amount.

5. The level of market interest rates is likely to run above both the rise in prices generally and also the increase in property values. However, to charge deferred interest at a rate above the rise in house prices would mean reducing an owner's share of the value of his property, and could in due course mean that the debt exceeded the total value of his home. To avoid this problem, we have assumed that the rate of deferred interest is held to 4% a year - equal to the assumed average rise in house prices. On these assumptions the same capital receipts would be produced by deferred interest loans or by equity linked lending.

6. The assumptions about inflation and the rise in house prices have been set after discussion with the Treasury.

ANNEX B

ADMINISTRATION OF LOANS FOR HOME IMPROVEMENT AND REPAIR

Matters common to all loans

1. For all loans, the local authority would register a charge against the property at the time the loan was given. The owner would need to clear this and any other charges in order to sell with good title. The amount due to the local authority would therefore be paid out of the proceeds of the sale, as already happens with a bank or building society mortgage. Where the property for which the local authority loan was made was already the subject of a bank or building society mortgage, the local authority would register a second charge. If the existing mortgage were large, the selling price of the property might not be sufficient to pay back all that was owed to the local authority.

2. It would be necessary to decide how to treat transfers of ownership within the same family (for example to a son or daughter on the death of a parent). Local authorities could require payment in such circumstances. If they did, the person inheriting the property would probably have to sell in order to raise the money. On the other hand, an exemption is given to the requirement for repayment of the Right to Buy discount where the house is passed on to a member of the same family.

3. With all types of loan a major issue which arises is whether there should be any reduction in the amount to be repaid where the value of the loan is greater than the increase in the value of the property which results when the improvement or repair work is carried out. For example, work costing £5000 to a property previously worth £15000 might raise its value only to £18000 (the £2000 difference is the so-called 'valuation gap').

4. One way of avoiding this problem would be to assess the pre- and post-improvement value of the property, and to ensure that any borrower was not required to repay an amount which reduced his share of the equity. However, householders would often need to borrow from a bank or building society, as well as taking out a local authority loan. If the loan system included a valuation

of the property, there would be obvious complications in calculating the amounts attributable to the local authority and the private sector loan where both had been used to finance a single package of work.

5. Owners would need to be given the possibility of repaying the loan before the house was sold, if they could raise the money and chose to do so.

Interest-free loans

6. Providing house prices continue to rise, the 'valuation gap' would affect only those recipients of interest-free loans who repaid within a year or two of carrying out the work. If it were felt inequitable in such a case to expect the owner to repay an amount larger than the increase in the value of the house, it would be possible to offer partial remission of loans repaid in the first few years. Alternatively a valuation system, of the sort described above, could be used. The amount to be repaid would be reduced where the difference between the pre-improvement value of the property and the selling price was less than the size of the loan. The local authority would have to be satisfied that the price at which the house was being sold was the maximum which could be obtained.

Deferred interest loans

7. Where interest was being charged, repayable when the house is sold, it would be necessary to consider very carefully what the rate of interest should be. Unless this is kept below the rise in value of the house for which the loan had been given, the owner will find his share of the equity shrinking. In some cases, owners could find that they owed the local authority more than the full value of the property. For example, on the not unreasonable assumption that market interest rates ran 4% a year ahead of the increase in house prices, an owner taking out a £10,000 deferred interest loan on a property with a post-improvement value of £20,000 would find that, within 20 years, he owed the local authority more than the house was worth.

8. This suggests that deferred interest loans will need to be

offered at less than market rates. The rate charged will also need to be variable, certainly over time and probably between areas of the country (if price rises are not uniform across all regions). There will still be a risk to the home-owner whose house increases in value by less than the national or regional average.

9. The owner would need to be told of any change to the interest rate being charged, and be informed regularly of the total debt outstanding. This could be in a form similar to the annual statements sent to bank and building society mortgagors.

10. Tax relief is normally available on the interest on loans for improvements and most types of repairs. If the rate of interest being charged on deferred interest loans were at less than the full market rate, it might be felt appropriate to exclude such loans from eligibility for tax relief. But if relief were to be offered, this would presumably be on a MIRAS-type system under which the local authority calculated the increase in the outstanding loan net of tax.

Equity sharing loans

11. With equity-sharing loans, local authorities would always need to carry out a valuation of the property to assess the share of the equity which they should take. If it were decided to take account of the possibility that the cost of the work would not in all cases be fully reflected in the increased value of the property, both pre- and post-improvement values would need to be assessed.

12. Taking out a charge on the property related to a share of the equity would be highly unusual and could present some difficulties, though it should be possible to achieve it.

13. Some people will continue to live in their homes for a very long time after the loan has been paid. The local authority will benefit from the rise in value resulting from subsequent improvement work which such owners carry out and finance themselves, unless further valuations are carried out to allow the increases in value attributable to such work to be disregarded when calculating

the amount due to the authority.

14. The local authority would need to be satisfied that the maximum possible price was being obtained for the property when it was sold. It might be necessary to allow the District Valuer to assess the selling price, if the authority felt that the owner was attempting to sell it cheaply.

15. Although the equity share would be an alternative to charging interest, it would not seem possible to give the owner the benefit of tax relief on the increase in the value of the equity share over time - effectively the interest on the loan.

FEB 1985

31 Jan 85

10 DOWNING STREET

David,

Here is a short paper setting out the case for home improvement LOANS. Let us discuss it.

Christopher.

David Barclay, Esq.,
No. 10.

Discussed briefly.

Please p.a.

DMB
7/2

HOME IMPROVEMENT LOANS

This brief paper outlines the case for replacing some or all home improvement grants by loans in such a way that the State can recoup much of the cost of financing home improvements in a simple way while still providing strong incentives for householders to make timely improvements.

Cutting the cost of housing policy

Gross expenditure on housing in England (in 1984/5 cost terms) has fallen from some £7.6bn in 1979/80 to some £4.7bn in 1984/5, although this reduction is partly offset by an increase in housing benefit from £1.1bn to £2.3bn over the same period. Capital receipts have more than doubled from £0.7bn to £1.6bn. The biggest percentage fall in gross spending has been in general subsidies, but capital expenditure on new building has also fallen. Following the 1980 Housing Act, local authority housing revenue accounts are able to make surpluses, which make a modest contribution to improving the income side of the PSBR. However, expenditure on renovation, particularly in the private sector, has increased.

The Cabinet decided on November 8 that the housing programme for the next three financial years would be reduced as follows:

	1985/6	1986/7	1987/8
White Paper:	£2496m	£2610m	£2680m
Reductions:	£ 312m	£ 142m	£ 100m
Percent. cut:	12.5%	5.4%	3.7%

It is essential that our policy for achieving these savings (and for winning bigger savings, if possible) should be one that can be presented in a favourable light. In recent months, the continuing decline in new house-building and the poor state of repair of much of the nation's housing stock have received much attention from the Press. If we are not careful in our choice and presentation of reductions, we shall run the risk of losing much of the political advantage our housing policies (notably council sales) have gained.

The rising cost of home improvement grants

Home improvement grants are one of the largest items in the housing budget. Their present high cost arises partly from the Budget measures of the past two financial years, which allowed 90% rather than 75% grants, and partly from the

Government's 1981 exhortation to local authorities to increase their capital spending.

Home improvement grants accounted for £933m last year, against a White Paper figure of £770m and a DoE baseline of only £450m, which the Treasury would like to reduce in future years to £250m. The Cabinet on November 8 accordingly felt that home improvement grants would be an appropriate target for reduction in the capital budget.

The figures for local authorities' capital spending on home improvement and thermal insulation grants are set out below:

	1978/9	79/80	80/81	81/82	82/83	83/84	84/85
Cash:	£ 98m	£134m	£144m	£218m	£451m	£933m	£778m
1984/5 terms:	£174m	£206m	£190m	£258m	£495m	£980m	£778m

In cash terms, the cost of home improvement grants has risen almost tenfold since the Government took office. Even in real terms, the increase is almost sixfold, though the return to 75% grants will cut the cost a little this year.

Furthermore, the present system of grants is open to abuse and is frequently abused. Some wealthy people have exploited the grant rules and made fortunes by buying houses in different areas, improving them at the expense of the taxpayer and moving on, taking a substantial profit on sale. For instance, three years ago the GLC gave an improvement grant for a house to be converted into flats. This year the new owner of the house applied for and got an improvement grant to reverse the work done under the previous grant and to restore the house to its original form.

However, the English House Condition Survey shows that the housing stock is deteriorating fast. The DoE estimates that grant expenditure of at least £600m a year at present prices is needed merely to maintain the present standard of housing and to prevent further deterioration of the stock.

The purposes of improvement grants are to reduce the number of unfit or sub-standard homes and to reverse the present trend of increasing disrepair even where the neglect falls short of making the homes unfit to live in. Any change in the system should be designed to achieve these objectives:

to maintain an effective programme of home improvement;
to reduce the public cost;
to target public assistance to reach people in most need;
to encourage the better-off to seek private finance;
to avoid means-testing;
to avoid discouraging take-up of public assistance; and
to keep the system simple.

Home improvement loans

The proposals for better targeting of grants set out in the draft consultation document on home improvement policy are not expected to produce any savings in public expenditure. However, substantial savings would be possible, with an increase rather than a reduction in the penetration and effectiveness of public assistance, if some or all home improvement grants were transformed into loans.

Loans have the following advantages over grants:

* Loans are very much cheaper in the long run.
* Loans yield some savings even in the short run.
* Loans prevent profiteering by the rich.
* Loans allow larger amounts to be allocated for home improvement in the long term than at present.
* Loans allow the deployment of larger sums to the poorest homes.
* Loans are simple, flexible and easy to administer.
* Loans could be wholly or partly privately financed.

How loans might work

Home improvement loans might replace all grants (Peter Rees has suggested this option, which yields the largest saving to the exchequer), or loans might replace only those grants which now go to the better-off. In Wales, for instance, 60% of people living in unsatisfactory accommodation are unemployed and 40% are pensioners: 45% of all grant applicants are unemployed and 37% are pensioners; and the average income of grant applicants is £5,000 a year. It would not be reasonable to expect such applicants to pay interest at anything like current rates; hence these poorer people would either continue to receive grants, as now, or would receive loans either at a preferential rate of interest or even interest-free.

From the Government's point of view, loans rather than grants would be attractive because they could yield substantial savings on the cost of home improvement assistance. The savings could be applied partly to the reduction of public expenditure in general and partly to an increase either in the number of home-owners assisted or in the percentage of the cost of improvement works funded by local authorities, or both.

Such an increase would provide additional incentives to the categories of owners with a poor record of take-up under the present system, such as the elderly, the unemployed and those on low incomes. For instance, elderly or low-income home-owners might be given 90% or even 100% grants for essential improvements (as apposed to the present maximum of 75%), the extra public cost being funded by some of the receipts from the loans repaid by other home-owners.

Applicants for loans would be encouraged, and perhaps, if they were high earners, required, to apply to the private sector (eg the building societies, whose loans for home improvement have grown from £150m a decade ago to about £1,500m a year today).

Loans from public funds could be of the following types:

* **Full-interest loans;** * **Reduced-interest loans;**
* **Historic-cost loans;** * **Equity-sharing loans.**

Full-interest loans would be suitable only for people in the upper income-brackets. Since there would be little difference between these loans and the loans now available from building societies, these loans would help those better-off home-owners who had severe defects in their houses (of the sort that would now attract mandatory grants) and who were unable to raise private finance to carry out the repairs.

EXAMPLE: £5,000 borrowed for 7 years, assuming 30% tax relief and 5% pa inflation:

Interest rate before tax rlf:	4%	8%	12%	16%
Real total repayments:	£4929	£5684	£6484	£7327
Real tax relief:	£221	£456	£705	£966
Real borrower's repayments:	**£4709**	**£5228**	**£5779**	**£6361**

Thus the State recoups almost all its investment, even after tax relief, with negative real interest rates, and makes a profit at positive real interest rates. The **bold** figures show how much in real terms the State recoups compared with the nil-recoupment from grants.

Reduced-interest loans would be more attractive to home-owners than the full-interest loans offered by the building societies and would thus act as a greater incentive to make improvements while yielding healthy and immediate public savings. These loans would not be suitable for poor people.

EXAMPLE: £5,000 borrowed for 7 years, assuming 30% tax relief and 5% pa inflation:

The calculation is as for the example of full-rate loans, except that the columns for lower interest-rates should be studied. At present high real interest rates, the State would recoup almost the full sum lent.

Zero-interest, historic-cost loans would be the simplest to administer and would be best for poorer home-owners if the Government decided that grants should be wholly replaced by loans, as Peter Rees suggests. A legal charge for the full amount of the loan (or, to help poorer people still further, for the often smaller amount by which the works paid for by the loan have increased the value of the property) would be registered at the Land Registry and the amount would be

repayable to the lending authority at par on subsequent sale of the property, or earlier at the borrower's discretion. Historic-cost loans suffer from two drawbacks: first, the public expenditure saving is much less than with the other forms of loan (though the saving is still significant); and secondly, borrowers would find it in their interest to delay the sale of their home for as long as possible after receiving the loan, adversely affecting the financial return to the State, which would diminish as the value of money fell, and hampering both labour mobility and the free operation of the housing market.

EXAMPLE: £5,000 borrowed for 7 years, assuming 5% pa inflation:

Cash amount repaid:	£5000
Real amount repaid:	£3553

Even at historic cost, the State recoups, in real terms, £3,550 of the £5,000 it originally lent.

Equity-share loans would produce a yield to the State not dissimilar to reduced-interest loans, but would be easier for the less well-off to cope with. The lending authority would take a share in the equity of the house, calculated by taking the value of the house at the time of the loan, adding the value of the grant (or the often lesser amount by which the value of the property has been increased by the grant-aided works) and registering a charge for the percentage of this total represented by the grant. The charge would be redeemable either on subsequent sale of the property or earlier, at the borrower's discretion. The charge would record not a cash amount but a percentage of the total value of the house. At the time of redemption, that percentage of the price would be payable to the lending authority. Thus the lending authority (and hence the exchequer) would share in the appreciation in the value of its equity in the house caused by the general increase in house prices.

Administratively, equity-sharing loans would be simple: it would be the responsibility of the householder to get his house valued at the time of applying for the loan (this is a quick and simple procedure, costing about £50). And the lender would automatically be notified by the Land Registry when the house came up for sale, since property encumbered by charges cannot be sold without notification. Therefore little or no additional work would be incurred by the local authority, if it were the lender. It would send its inspector, as with the present grant system, to decide what work could attract a loan and how much to lend. The only difference would be that, instead of getting nothing back, it would receive a large cheque when the loan was redeemed. If the borrower decided to redeem the loan without selling the house at the same time, the onus would be upon him to get a valuation done before making repayment.

Similarly, if the borrower decided to carry out additional repairs or extensions to the house at his own expense after having received a loan, it would be up to him to get a revaluation done and to pay the cost of amending the land-charge, by agreement with the local authority, to reflect the value of the additional work done.

EXAMPLE: £5,000 borrowed for 7 years, assuming 5% pa inflation & house worth £30,000:

Av. house price increase pa:	3%	5%	7%	10%
Value of house after 7 years:	£36896	£42213	£48173	£58462
Cash amount repaid:	£6149	£7036	£8029	£9744
Real amount repaid:	£4369	£5000	£5705	£6924

Assuming that house-prices keep pace with inflation, the State recoups all its loan. If house-prices outstrip inflation, the State makes a profit. Savings would be substantial even if the value of the house were increased by only half the value of the loan and half the amount repayable were accordingly waived.

How much would loans save the exchequer?

The amount saved by the exchequer on the introduction of loans would depend upon a) the extent to which Ministers decided to replace loans by grants; b) the type of loans adopted; c) the extent to which public expenditure savings from loan repayments were used to finance additional expenditure on home improvement in areas of greatest need (e.g. Wales).

If all grants were replaced by equity-sharing loans, and if house prices kept pace with inflation, the saving to the exchequer, at today's prices, would be £50m in the first full year of operation, rising to **£750m per year** at the point of equilibrium (i.e. about 7 years from the introduction of loans). This is the maximum saving achievable.

If half of all grants were replaced by historic-cost loans, and if inflation ran at 5% pa, and if half the repayments were waived, the saving in the first full year would be about £20m., rising to **£250m per year** after 7 years. This is the minimum saving achievable.

The most likely outturn lies somewhere between these two figures: say, £35m in the first year and **£500m per year** after 7 years, or approximately ten times the expected annual saving from abolition of the GLC.

Part of this saving could and should be redeployed to increase grant assistance to the poorest people and the poorest regions. Even if as much as half of it were reallocated in this way, the amount available for home improvement would increase by one-third and the State would save **£250m a year.**

The political costs and benefits of loans

The political cost of replacing grants wholly by loans, particularly interest-bearing loans, would be considerable. Poorer people cannot take on the responsibility of heavy repayments: and many of the houses most in need of repair or improvement are owned by people who are elderly, unemployed or on low/fixed incomes.

It would, therefore, be advisable to introduce loans in place of grants only for those who can afford them. The minimum political cost would be achieved by opting for historic-cost or equity-sharing loans: equity-sharing loans bring in the larger return to the exchequer and are, therefore, recommended.

All existing grant applicants should be given grants upon approval of their application. The potential political cost would then be confined to those who have not yet applied for grants and would, accordingly, be very small. It would be altogether cancelled out if the Government made clear its intention to redeploy part of the money recouped from loan repayments as a means of providing further funding for the most urgently-needed repairs and improvements for the poorest home-owners. This extension of assistance, coupled with significant savings in public expenditure, is a political benefit which far outweighs any possible political cost.

Recommendation

The section on home improvement loans in the draft consultation paper is not sufficiently clear on a number of points. It should be redrafted to set out more clearly the considerations set out above, with particular emphasis on the financial and political benefits.

CM

CHRISTOPHER MONCKTON

30 January, 1985.

LOCAL AUTHORITIES' CAPITAL SPENDING ON HOME IMPROVEMENT AND THERMAL INSULATION GRANTS : 1977/78 - 1984/85 : £m

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1977 @@@@@@@ 66

1978 @@@@@@@@@@@ 98

1979 @@@@@@@@@@@@@@@ 134

1980 @@@@@@@@@@@@@@@@ 144

1981 @@@@@@@@@@@@@@@@@@@@@@@ 218

1982 @@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@/@@@@@@@@@@ 451

1983 @@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@/@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@ 933

1984 @@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@/@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@@ 778

                                     AVERAGE (/) = 352.75
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File

JKRASB

10 DOWNING STREET

From the Private Secretary

21 January 1985

Dear John

PUBLIC SECTOR HOUSING IMPROVEMENT POLICY - CONSULTATION DOCUMENT

The Prime Minister has seen a copy of your Secretary of State's letter of 7 January to the Lord President, with which he circulated a draft Consultation Paper on private sector housing improvement policy. The Prime Minister has also seen a copy of the Chief Secretary's comments in his letter of 18 January.

The Prime Minister considers that the draft Consultation Paper is likely, in its present form, to make considerable political difficulty for the Government without any commensurate return. She is particularly concerned about the treatment of home improvement loans, but she believes also that the options set out in paragraph 33 of the draft need to be widened to include some discussion of the possibility of paying mandatory grants only to those of pensionable age.

On loans, the Prime Minister shares the Chief Secretary's reservations about terms. She has commented that if home improvement loans are interest-free, make no allowance for inflation, and are also subject to partial remission in certain circumstances, then they are not very different from grants. Moreover, the political implications of the proposals need to be more fully thought through, bearing in mind that, if failure to get help from a bank or building society is a condition of the loan:

(a) a number of owner-occupiers who now qualify for financial assistance will get none;

(b) judging the seriousness of people's efforts to obtain bank and building society finance will be extremely difficult;

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(c) those who are least credit-worthy, and therefore rejected by private institutions, will be most likely to obtain loan finance from a local authority.

The Prime Minister has the following detailed comments on the draft:

(i) Paragraph 14 - ~~the Prime Minister~~ Is helping to maintain a satisfactory workload for the building industry an appropriate objective of home improvement policy?

(ii) Paragraph 21 - Does the fact that some owners find the prospect of major work to their homes daunting establish beyond doubt the need for more direct help?

(iii) Paragraph 29 - Why need it be assumed that repairs as well as improvements should qualify?

BF

I should be grateful if you could let me have a note setting out your Secretary of State's response to these comments, following which the Prime Minister has it in mind to take the chair herself at a meeting to consider further the form of the proposals which should be put out to consultation.

I am sending copies of this letter to Janet Lewis-Jones (Lord President's Office), to the Private Secretaries to the members of H Committee, and to Richard Hatfield (Cabinet Office).

Yours ever,

David

(DAVID BARCLAY)

John Ballard, Esq.,
Department of the Environment.

PRIME MINISTER

Why do we need to publish this Green Paper. It is a shame with what to back ourselves.

HOME IMPROVEMENT

The first of the Policy Unit recommendations is certainly the most important, and in my view it is the only one that you need to pursue at this stage.

The Consultation Paper suggests that home improvement loans should be available only to those who fail to get help from banks and building societies. This proposition seems to me to suffer from a number of disadvantages:

(i) a lot of owner-occupiers who now qualify for some financial assistance will be ruled out (cf student grants);

(ii) judging the seriousness of people's efforts to obtain bank and building society finance will be extremely difficult;

(iii) those who are least credit-worthy, and therefore rejected by the private lenders, will be most likely to obtain help from a local authority.

I am horrified about the proposals. I defend I share Peter Rees' scepticism. These loans are not loans - they are almost grants. No interest no repayment. I defer to Nicholas - entirely no repayments MT

In welcoming in principle the idea of home improvement loans, you may therefore like

(i) to note the Chief Secretary's reservations (Flag A);

(ii) to ask H Committee to consider carefully the political dimensions of this decision. I do not like the proposal

Agree?

DMB

18 January 1985

015/104

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

18 January 1985

Dear Secretary of State

PRIVATE SECTOR HOUSING IMPROVEMENT POLICY-CONSULTATION DOCUMENT

Thank you for copying to me your letter of 7 January to Willie Whitelaw.

In general I am content with the draft consultation document subject to the points below relating to three aspects of the document which go further than the proposals agreed by H Committee on 17 October.

First, I was interested in the proposal (paragraphs 37-44) that loans should be substituted to a greater or lesser extent for grants. I think this is well worth pursuing. But it is important that we think through the implications of a loan scheme thoroughly before canvassing it.

In the longer term a loan scheme could offer public expenditure savings but the benefits should not be overstated (as they certainly are in the existing draft). Substituting loans for grants will not result in short-term savings, and in the longer term savings will be limited by the generosity of the repayment terms (loans to be repaid, interest free, only on the sale of the house and only to the extent that the value of the house has appreciated as the result of the improvement work undertaken with the loan). To the extent that savings are in prospect, I do not believe we should canvass the option of using them to increase the numbers assisted as the existing draft does. We could get only one answer from the lobbies.

This is not a loan - but a grant

If we are sure we have got the scheme right, then I think it worth emphasising the possibility of substituting loans for all grants, mandatory or discretionary. In part

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this is because to substitute loans for discretionary grants alone seems to be likely to lead to upward pressure on expenditure. But in principle, with repayment terms as described above, I wonder whether there are any fundamental objections to replacing grants entirely with loans since repayment is only called for when the value of the improvement is realised on sale of the house.

Second, paragraph 77 of the document which deals with the scheme to encourage private redevelopment, should be amended to make it clear that local authorities will need to appraise schemes carefully to ensure that developers' costs are reasonable and that the selling price should be set at the maximum which the market can bear. The scheme should not involve any subsidy to the selling price. In view of the scope for abuse, I think it would be sensible first to run a pilot scheme to assess the administrative practicalities of this proposal. The document might suggest that this should be in the partnership areas using the existing arrangements for Urban Development Grants.

Third, paragraph 78 dealing with financial assistance to low income owner occupiers displaced by redevelopment should make it clear that the cost of such assistance should be taken into account in evaluating the cost effectiveness of redevelopment as opposed to improvement and that it should be given only to owner occupiers who are too poor to obtain commercial loan finance.

I am copying this letter to the Prime Minister, members of H Committee and to Sir Robert Armstrong.

Yours sincerely

for PETER REES

[Approved by the Chief Secretary]

18 JAN 1985

PRIME MINISTER

HOME IMPROVEMENT CONSULTATION PAPER

Patrick Jenkin has circulated Cabinet colleagues with a draft consultation paper on home improvement policy. He plans to issue the document as a Green Paper very shortly, so that the Housing Bill scheduled for the 1985/6 session can contain proposals on home improvement.

Summary of the consultation paper

The condition of the housing stock: Fewer houses lack basic amenities, but there are still almost a million dwellings which fail to meet the minimum standard of fitness, 0.7 million lacking basic amenities and 2.3 million needing repairs costing £2,500 or more. A quarter of private homes are unsatisfactory and the number of dwellings needing major repairs has risen by a fifth since 1976.

Encouraging owners to help themselves: The building industry should publicise to householders the importance of doing timely repairs to a good standard. Building societies are lending more than ever to assist with repairs: £1,500m in 1983 alone. Agency services set up by councils or housing associations are also helping with householders' repairs. But in 1981 two-thirds of householders in unsatisfactory properties had incomes of less than £4,200 a year, one-third would have had to borrow three times their annual income to do all the necessary repairs and one-third were pensioners.

Home improvement grants: The proposal is for a single type of repair/improvement grant, mandatory for the installation of basic amenities and for bringing houses up to the new "tolerable standard" of fitness, discretionary for houses above tolerable standard but still needing repair to meet the "10-point, 30-year standard". Eligibility for grant would be assessed not, as now, on rateable-value limits but in one of three ways:

why? -

> OPTION A: Full means-testing with measurement of incomes, savings and cost of works, along the lines of Supplementary Benefit assessment.
>
> OPTION B: Income-testing, taking some account of savings.
>
> OPTION C: Income-testing alone.

Option B is recommended: grants would be payable to households with incomes under £10,000 p.a. and savings under £4,000.

Home improvement loans: Loans could replace descretionary grants and perhaps mandatory grants as well. Loans would

yield savings on the cost of home improvement assistance; the savings could either be used to cut public spending generally and/or to increasing the number of households aided.

Loans would be repayable either on subsequent sale of the property or, at the householder's discretion, earlier. Repayment would be either at historic cost or on the basis of an equity share in the value of the property, equivalent to the proportion of the post-improvement value represented by the works done.

Other provisions: A variant on the Improvement for Sale scheme would allow councils to make grants to developers of properties on which proceeds from sale were too little to allow a big enough financial return. Housing Improvement Areas, with new criteria for size, improvement need etc., will replace General Improvement Areas and Housing Action Areas and councils will be encouraged to select areas that are capable of improvement as well as in need of it. The Government will legislate to give councils power to institute Enveloping schemes for the external repair of groups or blocks of privately-owned dwellings. Inspections of dwellings by councils with a view to making compulsory repair orders will be required by law. Slum clearance is no longer needed on a massive scale, and in future it should be done more sensitively.

Public funding: The Government now funds council spending on home improvement and slum clearance by specific Exchequer support, for which councils are required to apply. An alternative would be to support such spending wholly through block grant, leaving councils to decide how to spend the resources allocated to them.

Policy Unit recommendations

There is no reason why you should not say that you are content with the draft as it stands. However, there are two points which you may wish to make in a Private Secretary's letter (draft attached):

1. **Home improvement loans:** The cost of home improvement grants has risen almost tenfold since the Government took office (a figure which, incidentally, gives the lie to accusations that we are not interested in infrastructure support). In 1984/5 the cost of home improvement grants was £900m. The replacement of most grants by loans could eventually yield annual savings of £200m-£500m, though the full saving would not be achieved until the loan system had been running for about seven years. Nonetheless this saving is very large, is accordingly worth going for and would be achieved with a minimum of public outcry or political cost. You may, therefore, wish to indicate strong support for the idea of home improvement loans.

2. **Housing Improvement Areas:** When preparing legislation on the criteria for the new Housing Improvement Areas, we shall need to look carefully at the before-and-after maps of publicly-funded assistance: the consultation document rightly says that councils will in future be encouraged to select only those areas capable of improvement, but we shall have to be careful not to lay ourselves open to accusations that, in withdrawing improvement status from some areas, we are declaring them to be "no-hope" areas for which nothing can be done.

3. **Public funding:** We have recently attracted flak for allowing local authorities to accumulate receipts from council-house sales and then telling them they were not free to spend the money. We do not now want to give them the chance to overspend on home improvement - a decision which we might later regret. The existing obligation upon councils to apply for home improvement or clearance money is a useful restraint on their propensity to overspend. You may like to say so in your letter.

4. **Timing:** Instructions to Counsel for a 1985/6 Housing Bill will have to be drafted soon. You may like to include in your letter a gentle reminder that time is pressing, both on home improvement policy and on the private rented sector.

CM

CHRISTOPHER MONCKTON

14 January 1984.

E.R.

DRAFT PRIVATE SECRETARY'S LETTER

CONSULTATION DOCUMENT ON HOME IMPROVEMENT POLICY

The Prime Minister has seen the draft consultation document on home improvement policy and is content that it should be published as a Green Paper. She has commented that she is attracted by the idea of home improvement loans, which, while continuing to provide incentives for householders to keep their properties in good repair, would ~~be of great assistance to the Government in its overall economic~~ aim of ~~controlling~~ public expenditure. [illegible] reduce the cost of assisting home improvement

The Prime Minister considers that local authorities should continue to receive their funding for home improvement and slum clearance by specific grant rather than by block grant. The necessity of applying for grant would act as a useful restraint upon the propensity of councils to overspend.

If legislation is to be drafted in time, the Green Paper will have to be published quickly and the period of consultation will have to be short. The Prime Minister is also concerned that your Secretary of State's proposals for deregulating the private rented sector should be put forward to H Committee soon, so that they can be included in the 1985/6 Bill.

[The Prime Minister is content that the Green Paper should be published as drafted.]

VM

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cc PS/Mr Ross (with attachment)
PS/Sir A Young
Mr Mansfield
PS/Sir P Harrop
PPS Mr Portman
Mr Vaughan

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: G/PSO/46642/84

Your ref:

7 JAN 1985

Dear Willie,

PRIVATE SECTOR HOUSING IMPROVEMENT POLICY - CONSULTATION DOCUMENT

On 17 October, H Committee approved the proposals in H(84) 28 as the basis for public consultation. Nicholas Edwards and I were invited to prepare a consultation document, and to circulate it in draft to colleagues after this year's public expenditure decisions had been taken and before publication.

A draft consultation paper is enclosed. This is based closely on the policies set out in H(84)28. It does, however, cover three items not included there:

a. the possibility of home improvement loans instead of or in addition to home improvement grants (paragraph 37 to 44);

b. Exchequer support for local authority spending (paragraphs 82 to 84). At present, a large part of the cost of spending on improvement and slum clearance is met from specific grants. The draft invites comments on whether this should continue, or whether support should be given wholly through block grant;

c. clearance (paragraphs 74 to 78). New powers are proposed to increase involvement of private developers in schemes of clearance and rebuilding. These include the possibility of financial contributions from local authorities (akin to the IFS for developers system already included in H(84)28). Interest-free loans for private householders affected by clearance are also proposed, to enable such people to buy another house.

Subject to your views and those of colleagues we would hope to publish the document as a Green Paper very shortly. A Housing Bill including these items is my priority bid for legislation in the 1985/6 session. It would be helpful, therefore, if any comments could be sent in writing as soon as possible - though we would, of course, be happy to have a meeting if that were felt to be necessary.

I am copying this letter to colleagues in H Committee and to Sir Robert Armstrong.

Yours ever

Patrick

PATRICK JENKIN

mg

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: G/PSO/46642/84

Your ref:

7 JAN 1985

Dear Nick,

PRIVATE SECTOR HOUSING IMPROVEMENT POLICY

You wrote to Ian Gow on 11 December, giving your views on the draft consultation document which Ian had sent to you on 27 November.

I am glad to note that you were content with the draft almost in its entirety. It was useful to have your comments on the subjects of home improvement loans and on Exchequer contributions to local authority spending. So far as the former is concerned, I can confirm that we have an open mind. We have made some small changes to the text to make that crystal clear. On Exchequer contributions, we have, as you asked, amended the draft to put forward both options (continue specific grants or subsume into block grant) and invite comments.

I enclose a copy of the revised draft of the complete document, and the letter I am today sending to Willie Whitelaw and colleagues inviting their comments.

Yours ever

Patrick

PATRICK JENKIN

Rt Hon Nicholas Edwards MP.

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DRAFT GREEN PAPER: "HOME IMPROVEMENT - A NEW APPROACH"

INTRODUCTION

1. Since May 1979 the Government has introduced a range of new, radical housing policies centred on the encouragement of owner-occupation. Over 60% of households in England and Wales now own their own homes. A recent survey of non-owners found that 77% of those interviewed hoped to be home-owners within two years; among the 25-35 age group owner-occupation was the preferred tenure of 90% of those interviewed. Our housing is a national asset of the highest social and economic importance which will increasingly be in the hands of owner-occupiers. Home ownership offers opportunities for individuals to alter and improve their homes as they wish; they must also carry the primary responsibility for keeping their property in good repair.

2. This consultation document deals with the condition of the privately owned housing stock in England and Wales, both owner-occupied and tenanted, and with its maintenance, repair and improvement. The Government's proposals envisage that the building industry, the financial institutions and local authorities will all help individual householders to meet their responsibilities.

3. The Government has had the benefit of the views of the local authority associations and has taken into account representations from a wide range of bodies in carrying out its review. It would now welcome comments from these and other organisations on the proposals which are set out below. Comments should be sent to:

Room N7/09
Department of the Environment
2 Marsham Street
London SW1P 3EB

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or to:

Housing Division
Welsh Office
Cathays Park
Cardiff CF1 3NQ

by [16 March 1985].

THE CONDITION OF OUR HOUSING STOCK

4. There are 12½ million privately owned dwellings in England and 800,000 in Wales. The majority of householders are better housed than ever before. In 1971 as many as 1 in 8 houses lacked an inside WC; 1 in 10 had no bath. By 1981 the proportions had fallen to 1 in 33 and 1 in 40. Features which a few years ago were regarded as luxuries are now commonplace; 57% of homes today have central heating compared with 23% in 1971.

5. When the Government carried out a survey of the housing stock in England in 1981 it found that the total number of unsatisfactory[1] private sector houses had fallen substantially since 1971. Even so there were 3.5 million unsatisfactory dwellings: 0.9 million regarded as failing to meet the minimum standard of fitness for human habitation; 0.7 million which lacked one or more basic amenities; and nearly 2.3 million which needed repairs costing more than £2,500. In all more than one in four private sector homes were unsatisfactory. The 1981 Welsh House Condition Survey found 87,000 privately owned dwellings to be unfit; 74,000 to lack one or more basic amenities; and 230,000 which were in need of repairs costing over £2,500; a combined total of 250,000 dwellings, or over a quarter of the stock. In one vital area the position was getting worse: the number of dwellings needing major repairs had increased by over 20% in both England and Wales since the stock was last surveyed in 1976.

6. An important factor in the condition of the private housing stock is its age: 37% of such dwellings in England and 56% in Wales were built before 1919. There is a high correlation between age and unsatisfactory condition.

[1] unsatisfactory dwellings for this purpose are those which were unfit, lacked basic amenities or needed repairs costing over £2,500 at 1981 prices.

THE GOVERNMENT'S ACHIEVEMENTS

7. Since it came to office in 1979 the Government has given a high priority to the improvement and repair of private sector housing. It has launched a number of initiatives to encourage both the private and public sectors to make better use of available housing and resources. These have included important changes to the home improvement grant system. Since 1980 tenants have been able to receive grants for the first time and 5,600 in England and 1,000 in Wales have benefited from this change. The Housing Act 1980 also made repairs grants generally available for pre-1919 houses in need of major repair. Between 1975 and 1979 only 800 repairs grants were given in England. In the three years 1981 to 1983 155,000 such grants were paid. In Wales the corresponding figures were 500 repairs grants in 1975-79 and 24,000 in 1981-83.

8. For 1982-83 and 1983-84 special arrangements were introduced under which the maximum grant rate for repairs grants and for intermediate grants (towards the installation of basic amenities) was raised to 90% for all applicants. Local authorities were offered additional resources to enable them to increase their grant spending. As a result expenditure in England, which had been as little as £90m in 1978-79, rose to £430m in 1982-83 and £907m in 1983-84, when 250,000 grants were paid. In Wales, expenditure of £11m in 1978-79 rose to £43m in 1982-83 and £102m (33,000 grants) in 1983-84. Spending is likely to reach £700m in England in 1984-85 and £80m in Wales.

THE FUTURE

9. The primary responsibility for maintaining and improving private housing will continue to rest with the owners. Evidence from the 1981 English House Condition Survey, updated to take account of recent trends, suggests that, in addition to mortgages, rents, rates and other bills, the average household now spends £450 a year on improvement and repair work (including maintenance and decoration). For owner-occupiers, the figure is much higher - £620. In all, spending on such work by owner-occupiers and private tenants in England and Wales amounts to over £7½ billion a year. When investment by landlords and developers is added, the total spent on the maintenance, improvement and repair of private sector housing approaches £9 billion.

10. Despite all this spending there were still 2½ million unsatisfactory private

sector houses in England and Wales in 1981; and spending between 1976 and 1981 was insufficient to prevent an increase in the number needing major repairs. The standard of the private sector stock is not solely a matter for its owners. As a national asset of increasing importance, its long-term future is a proper matter of national concern. One way of giving effect to this concern is to encourage and facilitate private sector investment in maintaining and increasing the value of the housing stock. In the first place, therefore, the Government intends to take action to raise the level of private sector investment. Full details are set out in paragraphs 13-24 below. Many householders fail to spend money on necessary improvements and repairs because they are worried about the disruption which will be caused or how to find a reliable builder. Individuals also need to be helped to get the best out of the investment they do undertake by spending the money where it does most good. They need advice on the consequences of failing to take action in time. The building industry and the lending institutions are becoming increasingly involved in the improvement and repair field. The Government is keen to see a further development of services to ensure that necessary maintenance, repair and improvement work is carried out.

11. In addition direct intervention by the public sector is justified in some circumstances, in particular where:

a. households are living in unhealthy or unsafe conditions; or

b. financial help is necessary for those who would not otherwise be able to carry out necessary improvement and repair work to unsatisfactory dwellings; or

c. conditions across a whole area are so bad as to discourage individual owners from spending money on their homes.

12. Whenever the public sector does intervene it is essential that public money is spent in the most cost-effective way. Proposals for ensuring that help is available where people really need it are at paragraphs 25-50. The Government is also mindful that much of the legislation in the home improvement field has been criticised as over- complicated; this is especially true of the grant system. Simplification has been one of the main objectives of this review.

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ENCOURAGING OWNERS TO HELP THEMSELVES

13. In general, owners are best placed to decide how much money to spend on their homes, and how it can best be used. But the 1981 English House Condition Survey showed that many people whose homes were in poor condition did not appreciate the extent of the faults nor the consequences of leaving them unremedied. Very few whose homes were judged by professional surveyors as unfit regarded their condition as "very bad"; most thought they were average or better than average.

14. Greater public awareness of the need for timely repairs - like replacing defective guttering and repointing brickwork - would have three benefits. It would:

i. save householders from greater expense in later years.
ii. improve the condition of the housing stock; and
iii. help to maintain a satisfactory workload for the building industry.

The Government urges the building industry to consider ways of publicising the importance of carrying out maintenance work, and how to detect the repairs which are most commonly needed. There have been a number of useful initiatives, notably the series of Home Improvement Months sponsored by the National Home Improvement Council; but more could be done.

15. Even when they do recognise that work is needed, many householders are deterred from undertaking it by concern about the standard of workmanship. Sometimes owners act against their own best interest: the cheapest builder is not always the one to choose. More publicity needs to be given to advice such as the Office of Fair Trading's "7 Golden Rules" (included in their 1983 Report on home improvements) aimed at those intending to employ a builder.

16. The Government welcomes the initiatives taken by the building industry to introduce warranty schemes. The Federation of Master Builders has had a scheme in operation for some time which its members can offer. The Building Employers Confederation has introduced a scheme which all BEC members are required to make available to clients. By offering the householder a guarantee of good workmanship, warranty schemes increase the willingness of owners to carry out work to their homes. The Government hopes that warranty schemes will be improved and extended, and become widely used for major renovation work.

17. It is also important that work is carried out with a minimum of disruption. In England, over a third of owner-occupiers living in houses needing major repairs are old age pensioners. In Wales the figure is as high as 50%. Fear of disruption to their homes deters many elderly people from undertaking repairs and improvements. They need reassurance that the work will be carefully planned, and that everything will be put back in place.

18. For larger jobs, householders frequently need to borrow to finance some or all of the work. Where the house is being bought with the aim of renovating it the improvement cost is often included as part of the mortgage. In the last few years the lending institutions have shown themselves increasingly ready to lend on older houses in need of renovation. However, the majority of unsatisfactory dwellings have been occupied by the same household for more than 10 years. In these cases an existing mortgage will need to be increased or a new loan taken out. The amount of further advances for improvement and repair work has risen dramatically in recent years. Building societies alone lent £1,500m in this way in 1983, compared with £150m in 1973. The Government welcomes this trend; the availability of loan finance will do much to encourage owners to carry out renovation work. The Government's Green Paper on building society powers, published last July[1], outlines various proposals which would make it easier for households to obtain funds for home improvements and repairs. These include the possibility of building societies offering unsecured loans and second mortgages on property already mortgaged to another lender.

19. Some of the money being advanced is in the form of maturity loans. Under these arrangements the capital is repaid when the house is sold and only the interest is due meanwhile. Maturity loans are especially worthwhile for elderly owners who can use them to exchange a share of the equity for money to carry out repairs or improvements. The Government is keen to see the lending institutions provide and advertise maturity loans, and devise attractive loan packages for renovation work.

20. Housing conditions will only be improved if we make the best use of private sector expertise and finance. The Government intends to discuss with the building industry and the lending institutions ways in which this can be done.

[1] 'Building Societies: A New Framework' (Cmnd 9316).

AGENCY SERVICES

21. Educating households to know when repairs are needed, publicising the best way of securing the services of a reputable builder and ensuring that loan finance is available will all help. But some owners will still find the prospect of carrying out major work to their homes a daunting one. In such cases more direct help is needed.

22. Agency services of various kinds are already available in some places to help such owners. These Agencies are organisations which have been set up by local authorities, housing associations, charitable trusts or trade associations to offer home owners practical help with their home improvements or repairs. Some Agencies offer a full building works service; but more commonly they act in an advisory capacity, helping their clients to identify the work that needs doing, contacting building firms on their behalf and arranging the necessary funding through grants or building society loans.

23. The Government believes that such services will have an increasingly important part to play. The organisations involved, and the type of work they cover, will vary from place to place. The Government welcomes the steps which the private sector has taken to establish Agencies, particularly where they can tap private finance. Charitable organisations have set up services in several parts of the country, including the Ferndale Home Improvement Service in the Rhondda and Tyneside Housing Advice Centre in Newcastle. The National Home Improvement Council has begun pilot Neighbourhood Revitalisation Services in three areas. Even where Agencies have been the responsibility of local authorities and housng associations, building societies and banks have often been willing to earmark funds for improvement and repair loans in the area; sometimes they have seconded staff or provided show houses. The Green Paper on building society powers suggests that societies might themselves wish to offer Agency services.

24. Agency services have a particularly important part to play in increasing the level of renovation activity among those households who would otherwise be least likely to undertake work to their homes. Some Agencies will be operated and financed wholly by the private sector; in others some public sector involvement will be necessary. The Government intends to legislate to clarify the powers of local authorities and registered housing associations to provide Agencies. So far as funding is concerned, local authorities could be empowered to provide

contributions towards housing association agencies operating in their areas, as well as having the power to fund services for themselves. In either case, however, the bodies concerned will be expected to minimise costs by securing help from the private sector and levying fees where appropriate.

FINANCIAL HELP FOR OWNERS AND TENANTS

25. Private spending on improvement and repair should increase. But the English House Condition Survey found that in 1981 64% of owner-occupiers living in unsatisfactory property had household incomes of less than £4,200 a year. 37% would have needed to borrow at least 3 times their annual income to carry out all the work which was needed. 35% were headed by an old age pensioner. In Wales over 40% of heads of households of unsatisfactory properties were OAPs; only 41% of heads of households were in full or part-time employment. Without financial help many such people will not be able to carry out essential work to their homes, even if they are aware of what needs to be done. The public sector will need to assist if disrepair is to be prevented and the condition of the housing stock is to be improved.

26. At present, help is made available in the form of home improvement grants. But, though the grant system is complicated, it fails in some respects to direct money where it is most needed. Research carried out into a sample of grants given between 1981 and 1983 underlines these shortcomings. Some of the main results from this research (the Distribution of Grant Enquiries) are set out at Annex 1. There is a need to simplify the arrangements for making financial help available while at the same time making sure that the money goes to those who would not otherwise be able to carry out essential work.

27. Determining eligibility simply according to the condition of the dwelling is not enough. Because the potential demand for help will always be greater than the public resources available it will not be possible - even if it were right - to give assistance to all who live in unsatifactory houses. In allocating the money which is available, priority should be given to those who would otherwise be unable to afford the work which is needed.

28. In future, help could continue to be in the form of grants. Another possibility, on which the Government would welcome views, would be special loans, which could be introduced in some or all circumstances instead of grant. The

Government has taken no final decisions on these matters: possible grant and loan systems are below.

Grants

29. If grants rather than loans are used the Government envisages a single type of grant, covering both repairs and improvements (including the installation of basic amenities). There would be mandatory and discretionary elements. At present intermediate grants are mandatory for houses lacking basic amenities. In England, there were 2.1 million such dwellings in the private sector in 1971; but by 1981 there were only 622,000 and the number is falling fast. In Wales the number of dwellings lacking basic amenities fell from 129,000 in 1976 to 74,000 in 1981. The number of houses unfit for human habitation has, however, remained virtually unchanged in both England and Wales. The Government therefore proposes that, in addition to installing basic amenities, grants would be mandatory to bring houses up to the proposed new 'tolerable standard' (see Annex II). For dwellings already above that standard, or to be brought above it, grants would be discretionary. After a discretionary grant a dwelling would be expected to meet the 10 point/30 year standard (see Annex II) or, failing that, be in reasonable repair. The 10 point/30 year standard would also be the maximum standard eligible for grant aid.

30. There would be no limit on the age of houses eligible for mandatory grants. Discretionary grants would be available for property built before 1940: although pre-1919 housing still makes up the bulk of property needing major repairs, the number of inter-war houses in poor condition increased nearly three fold between 1971 and 1981.

31. The Government has given very careful consideration to possible methods of determining eligibility among owner-occupiers (including both freeholders and long leaseholders). Since 1974, Rateable Value limits (at present £400 in London and £225 elsewhere) have been used, on the assumption that those living in unsatisfactory houses below these limits were least likely to be able to finance work to their homes unaided. But there is evidence that many of those eligible for grants at present could in fact afford to finance work from their own resources; while the opposite is true of some of those excluded from eligibility. This finding applies to all levels of Rateable Value: there is little relationship between the Rateable Value of dwellings and the ability of owner-occupiers to finance necessary improvements and repair work.

32. The Government has therefore concluded that a new method for determining eligibility for grants among owner-occupiers would be needed. A simple "passporting" system alone - making eligible those in certain groups, such as old age pensioners or Supplementary Benefit recipients - is attractive in theory but does not work in practice: too many owner-occupiers who fall outside such groups are deserving of help. Three possible systems have therefore been considered:

Option A: Full means-testing, involving measurement of incomes, savings and cost of works, along the lines used for Supplementary Benefit.

Option B: Income-testing, taking some account of savings.

Option C: Income-testing alone.

Option D. - Mandatory grant only for those of pensionable age.

33. These three alternatives are set out in detail in Annex III. Under a grant system, the Government's preference would be for Option B - making eligible for grants owner-occupiers with gross household incomes (for head of household and partner) under £10,000 in the previous tax year and savings under £4,000. Access to grant for those owner-occupiers meeting the basic eligibility test would then be further controlled by means of a taper based on the cost of work needed, so that those on relatively larger incomes and needing to carry out less work would receive a lower rate of grant. Such a test would be applied to all grants, whether mandatory or discretionary, but those households receiving Supplementary Benefit or Family Income Supplement would automatically be eligible without having to pass the income and savings test. About 1.3 million owner-occupiers in England would be eligible under these arrangements compared with 1.5 million at present. But about 100,000 households who are unable to afford the work needed to their homes would be eligible for the first time; and over 300,000 of those at present eligible but who can afford the work which is needed would be excluded.

34. The present system of proof of title and certificates of owner-occupation is time-consuming and serves little practical purpose. One option in future would be for owner-occupiers applying for grants to have to state only that they own the property in question and will live in it after the grant has been paid. Local authorities would then take action under the Theft Act where this undertaking appeared not to have been given in good faith.

35. Currently, there are four maximum rates of grant. In future under the suggested grant system, all grants would be available at up to 75% (or 90% for those receiving Supplementary Benefit or Family Income Supplement). The rate of grant in individual cases would depend on the household's annual income and the cost of work needed. Eligible expense limits (EELs) - the maximum total costs of work to any one property which can attract grant - would also be simplified. There would be just four EELs. One limit would be for mandatory grants to bring dwellings below the tolerable standard up to that standard. A second, higher, limit would apply wherever grants were being paid to bring dwellings up to the 10 point/30 year standard, irrespective of whether the dwelling concerned was previously below the tolerable standard or above it. There would be higher limits in both cases in Greater London.

36. As regards the private rented sector the Government proposes that tenants with regulated tenancies should be eligible on the same basis as owner-occupiers (ie using a test of income and savings). A similar test would not be appropriate for landlords. Assistance to landlords would be limited to dwellings let on regulated tenancies with registered rents.

Loans

37. The alternative form of financial assistance would be to adopt a system of home improvement loans, for properties which would otherwise attract discretionary grants and possibly also as an alternative to mandatory grants. Loans might offer savings on the cost of home improvement assistance; such savings could be applied either to the reduction of public expenditure in general or to an increase in the number of owners aided and in the percentage of the cost of improvement works. This increase could enable additional incentives to be provided to the categories of owners with a poor record of take-up under the present system, such as the elderly and those on low incomes. For example, elderly or low-income owners might be given 90% or 100% grants for essential improvements, the extra public sector cost being funded by receipts from the loans repaid by other owners.

38. In many respects the rules governing improvement loans (for example, eligible expense limits and restrictions on the type of work towards which help was given) could be the same as for grants. With loans, however, the householder would be encouraged, or possibly required, to seek help in the first instance from a bank or building society. Local authorities would then be lenders of last resort. A

test of income and savings could be used as a criterion of eligibility either instead of or in addition to a requirement that the applicant had been refused a private sector loan.

39. If loans were introduced, repayment could be made either on subsequent sale of the property or earlier, at the householders' discretion. The terms for repayment could be on the basis either of historic-cost or of equity-sharing. With a historic cost loan the local authority would attach a charge to the property for the full cash amount of the loan. This sum would be repayable, without interest, when the charge was redeemed. It would be necessary to take account of the possibility that the sum to be repaid might, in the early years after the work had been carried out, be greater than the increase in value of the house brought about by the loan, since money spent on renovation is not always reflected in a commensurate increase in the market value of the property.

40. Accordingly, part of the debt might be remitted if repayment in the early years of the loan were made (and the rate of remission could be varied depending upon whether the dwelling was previously above or below the tolerable standard; or whether the borrower was either elderly or on a low income); or the charge might contain a provision that the borrower should not be required to repay more than an amount sufficient to ensure that he suffered no financial loss.

41. Alternatively, repayment could be linked to a fixed equity share in the property, using a system in some respects similar to the Government's shared-ownership scheme for house purchase. If the increase in the value of the house brought about by the work financed by a public sector loan were, say, 25%, then the repayment due would be 25% of the value of the property on sale or earlier redemption. In this way, the public sector would share in the appreciation in the value of properties for which it had made loans.

42. An equity-sharing loan system would require the owner to have a valuation carried out at the time of applying for the loan to assess both the pre-improvement and post-improvement value of the property and so to decide what the local authority's share of the equity should be. Safeguards would be needed on subsequent sale of the property to ensure that the sale was at market value.

43. Some owners might subsequently carry out further work, at their own expense, which increased the value of the property. In these circumstances, owners could be

given the option of obtaining a further valuation on the basis of which they could apply for an amendment of the legal charge to make an appropriate reduction in the local authority's share of the equity. Owners who wished to repay their loans without selling their properties would similarly need to have a valuation made to determine the amount of repayment.

44. Substantial savings in public expenditure might also be possible if loans were used. The receipts accruing to local authorities would be greater with equity-sharing loans than with historic-cost loans. Equity-sharing loans would not suffer from any tendency on the part of borrowers on historic-cost loans to delay the sale of their properties for the sake of cutting the real cost to them of the eventual repayment, thereby reducing both mobility in the housing market and the capital receipts of the lending authorities.

Matters common to grants and loans

45. Whether grants or loans are chosen the Government intends to make help available for houses in multiple occupation (HMOs) towards the full range of improvement and repair work, rather than merely when basic amenities or means of escape from fire need to be installed.

46. The Government seeks views about the system for assisting housing adaptations for the disabled in future. The alternatives are set out at Annex IV.

47. Where public sector help is given it is vital that the work is carried out to an acceptable standard and represents good value for money. Measures are also needed to avoid abuse. The present arrangements do not meet these requirements. Though some local authorities keep lists of builders who carry out grant-aided work, applicants are not obliged to use firms from such lists. Indeed there is no legal requirement for the applicant to use the builder whose estimate was approved by the local authority - even though authorities are required to pay the amount of grant originally agreed, irrespective of the actual cost of the work.

48. The Government has considered giving local authorities rather than individual householders responsibility for choosing the builder, letting the contract and supervising the work. This would mean very high administrative costs for authorities; it would also remove the contractual link between householder and builder, even though the former would be paying a proportion - sometimes over half

- of the cost. The Government has therefore decided against this solution, but intends instead to take action in two areas;

i. by continuing to allow applicants to choose the builder but giving greater powers to local authorities to ensure that work is done by reputable building firms and that applications from builders with a poor record can be rejected. This would involve giving priority to firms offering suitable warranty schemes (see paragraph 16 above) and other builders known to do a good job. The Government intends to discuss this approach with the building industry and the local authority .associations.

ii. ensuring that each applicant employs the builder on whose estimate the offer of a grant or loan was based. Local authorities will be given the power to withhold the money from anyone who, without good reason, uses a builder other than the one whose estimate was approved.

49. Local authorities will still be able to give financial help for do-it-yourself work where they believe the applicant is competent to carry out the repairs or improvements to a satisfactory standard. DIY work will attract assistance only towards the cost of materials used.

50. The Government would welcome views on the possible grant and loan systems set out above. Legislation alone will not be enough - greater efforts need to be made. by all those concerned to encourage those owners who have hitherto been most reluctant to take up help, particularly the elderly, to do so. But the Government is keen to introduce new arrangements which will be:

- simpler to understand
- easier to administer, and
- better value for money.

IFS FOR DEVELOPERS

51. It would not be appropriate to use arrangements such as these for grants or loans in cases where property is being converted or renovated for sale by developers. Instead, the Government proposes to introduce a variant on the Improvement For Sale scheme. Under these powers local authorities will be able to

give grants to developers in cases where the proceeds from the sale of the property are insufficient on their own to provide an adequate financial return.

52. The arrangements will be designed to offer a quick and cost-effective way of getting empty local authority property and property in statutory improvement areas improved and brought into use. The scheme needs to be simple while ensuring that the public sector cost is kept to a minimum. The amount which the local authority can pay will be subject to an absolute ceiling per dwelling. There will also be controls to ensure value for money and to take account of the size of projects. The local authority's agreement will be necessary to the final selling price, and the grant paid to the developer will be adjusted in the light of this. The developer will bear the risk that the work itself will cost more than originally foreseen. It would be possible in addition to require improved dwellings to be offered for a certain period to existing public sector tenants andthose on waiting lists.

AREA IMPROVEMENT POLICY

53. Area action has an important role as part of a strategy for improving the condition of the housing stock; it will continue as a central plank in the Government's policy. The declaration of an area can do a great deal to increase private spending by reassuring the inhabitants and others, such as the lending institutions, that its future is secure. Areas also provide a way of concentrating public sector help so that it has the maximum effect.

54. There are at present 560,000 houses in 1,936 statutory improvement areas in England - 375 Housing Action Areas (HAAs) and 1,561 General Improvement Areas (GIAs). In Wales there are 45,000 houses in 120 areas. The number of houses in potential areas is even greater - 1.4m in 1981. Some HAAs and GIAs have been conspicuously successful. In HAAs reaching their 5th year in 1980 77% of dwellings needing major works to them had been improved. But some have been less successful, and overall the condition of HAAs merely held steady between 1976 and 1981 (though similar areas which had not been given HAA or GIA status actually deteriorated). Sometimes this was because local authorities declared inappropriate areas - the houses, and the surrounding environment, must be capable of being improved. In other cases too little money and manpower was set aside. Local authorities must accept that area improvement policy needs careful planning and a substantial commitment of resources. It is vital to ensure the cooperation of the lending

institutions, and to be prepared to give declared areas priority in allocating public sector funds.

55. The Government proposes that in future the main purpose of areas will be to increase local confidence and attract private funding (though local authorities will continue to be able to carry out compulsory acquisitions, subject to Ministerial approval). The arrangements for declaring areas will be drastically simplified. It is not necessary to have two types of area: the characteristics of areas declared as HAAs and GIAs have become increasingly similar; and the powers available to local authorities are now virtually identical. There will therefore be a single type of area - a Housing Improvement Area (HIA). Although HIAs will be expected to act as the focus for schemes involving the co-ordinated repair of blocks of dwellings and for other kinds of financial help, they will not (apart from IFS for developers) be restricted to HIAs and the rules governing local authority assistance to householders will be the same there or elsewhere. There will be transitional arrangements to cover the move to HIAs.

56. The legislation will set out the broad criteria which HIAs must meet, including a minimum size; a minimum proportion of dwellings needing substantial and structural repairs; and a maximum proportion of local authority housing. HIAs should also be areas where social and environmental problems exist side by side with poor housng. If areas meet these requirements, local authorities will be able to declare them as HIAs. The Government would probably need a power of veto over declarations, as it has at present with HAAs, unless Exchequer contributions cease to be available for spending on environmental works (see paragraphs 82-84 below). HIAs will be time-limited; the Government has in mind 7 years.

ENVELOPING AND BLOCK REPAIR

57. There are benefits in spending public money renovating houses in a single street or neighbourhood rather than spreading the resources across a wide area: the impact is greater, both on the local environment and on the confidence of owners. Concentrating grants in statutory (and non-statutory) improvement areas has been one way of taking account of these benefits.

58. More recently, techniques have been developed whereby local authorities bring about the renovation of the external fabric of entire blocks or terraces of dwellings which have deteriorated beyond the scope of routine maintenance. The

object is to secure quick, coordinated repair which produces a significant impact on the general character of the area as well as achieving economies of scale. Enveloping is one such approach, involving 100% public sector financial support. So far, 55 enveloping schemes have been approved in England involving 5,373 dwellings and 8 in Wales involving 919 dwellings. Progress with enveloping has, however, been hindered by the unsatisfactory nature of the existing statutory powers to carry out such works.

59. Another approach has been to group individual repairs grants into a single contract, with owners contributing to the cost. Several authorities have been successful in carrying out such schemes, often called 'limited enveloping' or 'block repair'.

60. The Government proposes to introduce legislation to provide a general power for local authorities to institute schemes for the external repair of groups or blocks of privately owned dwellings. The legislation will provide that, where possible, owners should contribute towards the cost: this makes schemes even better value for the public sector resources involved, and it is appropriate that owners should have a financial stake in the work which is carried out to their homes. Authorities operating 'block repair' schemes have found it possible to secure contributions, even in areas where incomes are low.

61. So far as possible the Government wishes to give local authorities a free hand to carry out schemes where local circumstances make this appropriate and they have the agreement of the owners concerned. The legislation will therefore allow local authorities to undertake such projects without seeking individual approvals from the Government, providing they meet certain criteria. These will cover:

i. the minimum size of scheme and maximum number of empty properties;

ii. a requirement that the great majority of owners affected should be eligible for home improvement grants or special loans from the local authority;

iii. the fact that contributions, amounting to 10% of the cost of work to each dwelling, should be obtained from the owner or occupier, though authorities will be allowed to undertake schemes where a small proportion of owners is in such financial hardship as to be unable to afford to meet any of the costs; and

iv. the cost of the scheme, including the relationship between the cost to the local authority and the increase in value of the dwellings;

Schemes not meeting the criteria will need to be submitted for consideration by DOE or the Welsh Office.

62. Projects will be restricted to work to the exterior of the dwellings: they will not cover other work within the curtilage (for example the rebuilding of boundary walls) nor internal work. Local authorities will be able to help finance such work with home improvement grants or loans, but these will be subject to the proposed rules set out above and to overall limits on the amount of public investment in individual properties.

63. Schemes will be expected to have an impact on the surrounding area, but the powers will not be limited to statutory improvement areas.

64. As all or almost all the owners will be contributing towards the cost, the formal responsibility for letting the contract could rest with them rather than the local authority, though in such cases there would be a single contract and the authority would need to act as the managing agent and offer advice and help to the owners. The alternative would be for local authorities themselves to be legally responsible for letting the contract, following full consultation with owners. To enable owners to contribute 10% of the cost, local authorities will need to arrange with building societies and banks for loans - often maturity loans - to be available.

MINIMUM HOUSING STANDARD

65. Ever since 1868 there has been a minimum housing standard - conditions below which no households should be expected to live. Where houses are in such a bad state as to put their inhabitants at risk, the public sector needs to intervene to ensure that the properties are either brought up to an acceptable standard, or cease to be used. Since 1957 the minimum standard in England and Wales has been the fitness standard. Under that standard local authorities have to assess whether a house is suitable for occupation, taking into account nine factors: repair, stability; freedom from damp; internal arrangement; natural lighting; ventilation; water supply; drainage and sanitary conveniences; and facilities for the preparation and cooking of food and the disposal of waste water.

66. At the time the fitness standard was framed it was clear that many houses failed to meet its requirements by a wide margin. As the number of outright slums has been reduced, the proportion of houses which are on the borderline between fitness and unfitness has increased. Nowadays, with fewer houses lacking basic amenities, the decision is often a very difficult one. To help local authorities the Government intends to set a new minimum standard and to offer advice to local authorities in administering it.

67. In Scotland the fitness standard was replaced in 1974 by the tolerable standard. Under this standard local authorities are still required to consider houses aganst a list of criteria but the property is automatically below the standard if it fails to meet the requirements in one or more respects - there is no need for authorities to try to reach an overall judgement about its condition. The system to be adopted in England and Wales will follow this approach.

68. So far as the standard itself is concerned, the temptation is to raise it to match rising social expectations. The Government is cautious about moving in this direction. Being below the minimum standard implies action to improve or demolish the house - if necessary against the wishes of its owner. People should not be subjected to such powers unless the property is demonstrably bad, to an extent where health or safety is endangered. The new standard proposed in England and Wales will therefore be the present Scottish standard (expect for the provision of artificial lighting and heating) with the addition of requirements

- that the dwelling is free from serious and dangerous structural disrepair;
- for a fixed bath or shower;

Owners will continue to have a right of appeal against proposals for compulsory action.

69. Comments are invited on the proposed standard, which is set out in full at Annex II. It is estimated that in 1981 1.2m private sector dwellings in England and 104,000 in Wales would have been below this standard compared with nearly 1 million and 87,000 respectively regarded as unfit for human habitation by the 1981 English and Welsh House Condition Surveys.

70. Advice will be prepared for local authorities on the interpretation of the new standard. The assessments of individual dwellings should be as objective as

possible: the advice will include recommendations designed to ensure that all authorities adopt similar measures in considering such things as dampness and natural lighting.

ACTION AGAINST DWELLINGS BELOW THE MINIMUM STANDARD

71. Where houses are below the minimum standard they should be dealt with as quickly as possible. Recently, this has not always been happening. In 1982-83 only 24,000 properties in England and 4,000 in Wales, regarded by local authorities as unfit were subject to compulsory action to secure their renovation, closure or demolition. In future local authorities will be required to carry out regular inspections of their areas with a view to assessing the number and location of houses below the minimum standard. Local house condition surveys will be one method of doing this. Where houses are found to be below the tolerable standard authorities will be required to take action to secure their renovation or closure within a period of not more than 12 months from the date at which they are declared to be below the standard.

72. Local authorities need to decide whether renovation or demolition is the more appropriate course for houses below the tolerable standard. In making this choice the present legislation requires them to judge whether or not the house can be improved at "reasonable cost". There has been a substantial amount of case-law on the definition of this term over the years. In the case of rented property it is generally taken that reasonable cost relates to the tenanted value of the dwelling. Where this value is low, renovation frequently seems uneconomic. However, once a closing order has been made and tenants rehoused, the value of the house can rise significantly - to an extent where renovation is regarded as appropriate.

73. The Government believes that these arrangements are in need of revision. In future local authorities will be required to take account of the range of possible options for a dwelling or area in deciding between renovation and demolition. A Departmental Code of Guidance will set out the economic and social factors which local authorities should consider in reaching their decisions. The test of reasonable cost will not be applied. Autorities will rather be required to consider the relative merits of available options. Property owners will be able to use a failure to have regard to the Code to argue that orders affecting them should not stand.

CLEARANCE

74. In most cases renovation will offer a more cost-effective solution than demolition, as well as being in keeping with the wishes of the occupiers. The days of large-scale slum clearance are over. Most 19th century slums have been dealt with: the number of dwellings suitable for inclusion in clearance areas was halved between 1971 and 1981. Increasingly, the unsatisfactory houses which remain are individual properties. Some of these need repairs; others require improvements to bring them up to a modern standard. But some still need to be demolished.

75. There is some evidence that the pendulum has swung too far against demolition. The 1981 EHCS found that there were still 300,000 houses in potential clearance areas, but only 15,000 houses were demolished in England in 1982-83; in Wales 900 were cleared. The rate of clearance is still falling. It is short-sighted and wasteful to spend large amounts of money to keep houses which will never provide satisfactory accommodation.

76. But where demolition is the most cost-effective solution it will be necessary to proceed with greater sensitivity than in the 1960s, when great areas of old houses were often laid waste. The EHCS showed that two thirds of the houses in potential clearance areas were in groups of less than 10 dwellings. Often the sites were interspersed with basically sound housing which could and should be retained. To do this will mean careful planning of the arrangements for decanting, selective clearance and redevelopment, especially if a sense of community is to be retained.

77. To provide a good mix of replacement housing, and to keep down public expenditure, private developers will need to be involved to the maximum possible extent. Local authorities will be given a statutory duty to seek the involvement of the private sector in redevelopment schemes. Authorities will also be empowered to offer pump-priming finance to developers where the cost of clearing and redeveloping the land is more than the price which can be obtained for new housing built on the site. The arrangements for such grants will be similar to those already set out in paragraphs 51-52 above for the proposed 'IFS for developers' system. They will be aimed at small clearance sites where the value of existing housing in the neighbourhood is low. The price at which the land is sold to the developer will be fixed by the District Valuer; the authority itself will have to approve the selling price of the houses.

78. The Government proposes that the arrangements for compensating those affected by clearance should be simplified; in future all those who have owned houses for more than two years will be entitled to market value compensation as of right. In most cases, however, even market value compensation will not be sufficient to enable an owner-occupier to buy another house in reasonable condition. Many households will be unable to afford to borrow on normal terms to make up the difference: in 1981 almost half the households in England living in unfit dwellings had no member in paid employment. The Government therefore proposes that local authorities should be able to give additional financial help towards house purchase, probably in the form of an interest free loan, to owner occupiers and tenants on low incomes who have lived for at least 2 years in houses which are to be demolished. The loan would be repaid when the house they moved to was sold.

OTHER COMPULSORY POWERS

79. Apart from housing below the tolerable standard, compulsory powers against private housing are not justified except where a nuisance is being caused to neighbouring property or to passers-by. At present action in these circumstances is taken under the Public Health Act 1936. For the future there are two possibilities: either this power could continue, or section 92(1)(a) of the 1936 Act could cease to apply to housing and be replaced by a specific housing power. The choice reflects a difference in philosophy: the Public Health Act assumes that neglect which is so severe as to create a nuisance should be a criminal offence. Under housing powers an offence would not be committed and a grant or loan could be available towards the remedial work which was required. On balance the Government prefers the latter course, but would welcome comments from those most closely concerned.

80. All compulsory powers will be subject to a single set of procedures, following the pattern presently used for repair notices under the Housing Act 1557 but covering both improvements and repairs. The owners and occupiers of property affected by the powers will be given full opportunity to appeal against notices serviced. Owners will not be able to serve purchase notices.

PUBLIC EXPENDITURE

81. The Government will continue to decide annually the amount of public spending on housing which the country can afford. Local authorities will be left to

determine how much of the total available to them to spend on private sector housing. The proposals set out in this consultation document are aimed at ensuring that the public money which is spent is used to produce the maximum benefit.

EXCHEQUER SUPPORT FOR LOCAL AUTHORITY SPENDING

82. At present the Government, through specific Exchequer support, pays a large proportion of the cost of local authority spending on private sector housing improvement and slum clearance. These contributions have been used as a method of influencing authorities' spending patterns - particularly by increasing the level of support towards home improvement grants. The existence of such contributions has enabled individual local authorities to increase spending on grants at very little cost to their ratepayers. One possibility would be to continue to support such spending in this way.

83. The alternative would be to begin supporting spending on slum clearance and private sector housing improvement wholly through block grant. This would be more in keeping with the Government's general wish to leave local authorities to decide how to spend the resources available to them. It would also reduce the workload both of local authorities (who have to draw up the claims) and Departments (who have to check them). Support through block grant alone should not imply a change in the overall level of Government support for local authority spending, since the reduction in the specific Exchequer contribution would lead to an increase in the amount available for distribution as block grant. If this option were chosen, the Government would need to discuss with the local authority associations how authorities' Grant Related Expenditure Assessments should be calculated for these items of expenditure.

84. The Government would welcome views on the two possibilties.

THE NEXT STEPS

85. The Government would welcome comments from local authorities, the lending institutions, the building industry and other interested bodies on its proposals. It will be discussing the details with those most concerned over the next few months, with the intention of introducing legislation when the opportunity arises.

86. The policies now being established provide the blueprint for improvement policy over the remainder of this century. The measures proposed are forward-looking and positive. The cornerstone of policy must be that owners are primarily responsible for the condition of their houses, though they should be given every help and encouragement in shouldering that responsibility. Where public sector intervention is called for the legislation needs to be simple, so that it can be understood by those who are affected and efficiently administered by local authorities. The Government's proposals achieve this. They also offer better value for the public money which is available and are more related to the contemporary problem of disrepair.

87. Housing standards are important to everyone. The Government's proposals are aimed at achieving a steady improvement in housing conditions.

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ANNEX 1

DISTRIBUTION OF GRANT ENQUIRIES

A. ENGLAND

1. In autumn 1983 the Department of the Environment carried out a study - the Distribution of Grant Enquiry (DGE) - to establish which people and properties received home improvement grants, the condition of the property before and after improvement or repair works were carried out, and the influence of grant availability on the decision to repair or improve. The study enabled comparisons to be drawn between the population who obtained grants and those people who according to the 1981 English House Condition Survey (EHCS) were potential grant recipients[1]. Data obtained by the DGE are generally representative of grants paid between 1981 and June 1983.

2. Results from the DGE are highly relevant in considering the future of the grant system. Some of the main findings relating to owner occupiers (but excluding grants for adaptations for the disabled) are set out below. The full DGE results will be published in due course.

Grant Recipients

3. Grants recipients are not too dissimilar to potential recipients although there is scope for improved targeting, Figure 1.

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1 Potential grant recipients are defined as those owner occupiers whose dwellings would justify grant aid by virtue of condition and where the dwellings are within the current age and rateable value limits. The EHCS estimated there were some 1.6m owner-occupied dwellings in this category.

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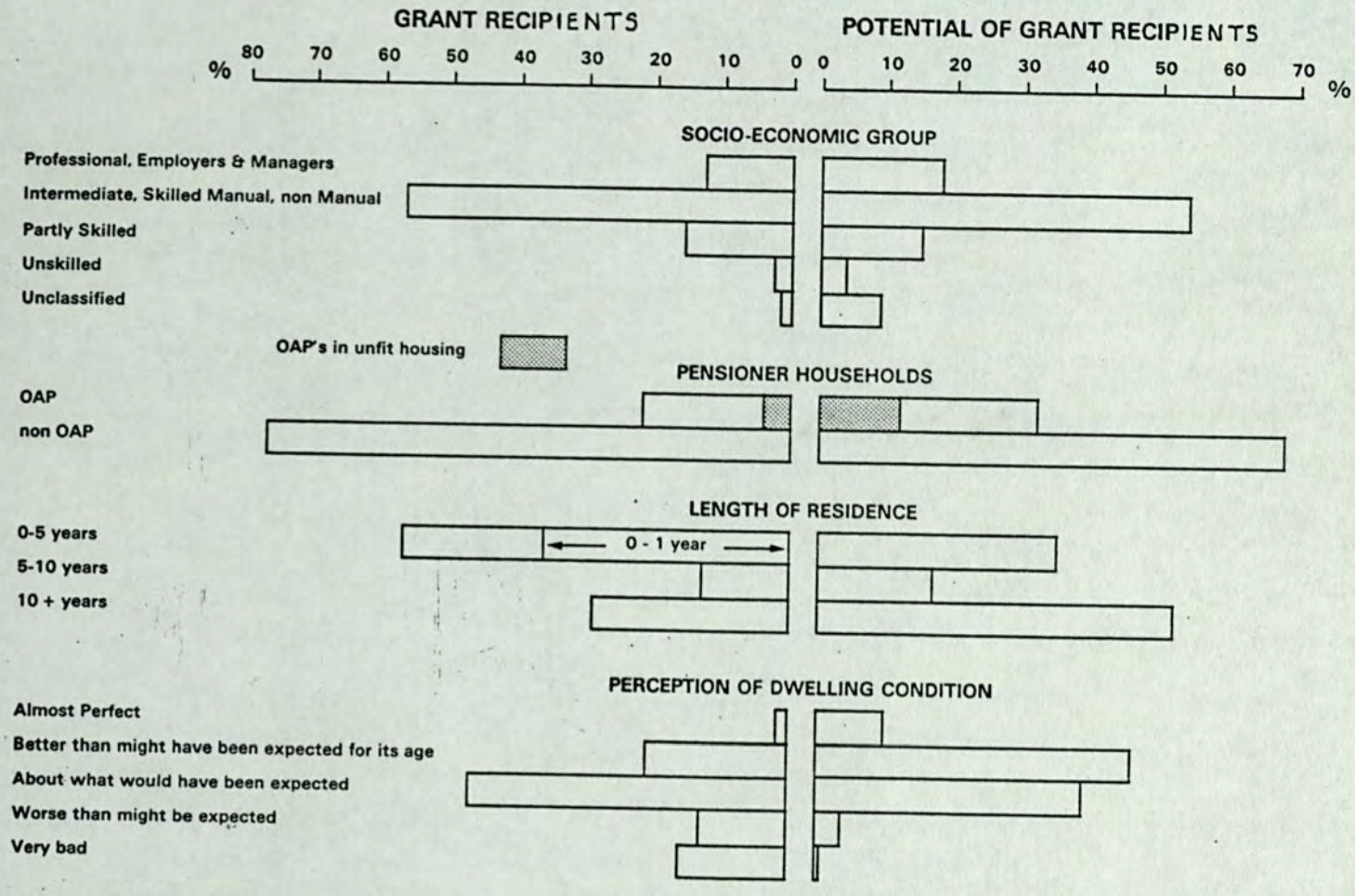
Figure 1 : GRANT RECIPIENTS



Contrary to anecdotal evidence, professional and managerial classes were not shown to be over represented as grant recipients. But elderly households accounted for only 20% of recipients despite the fact that over one third of potential recipients were of pensionable age. And the elderly who had grants tended to live in better housing conditions than elderly potential recipients. The under-representation of the elderly as grant recipients helps to explain the wide difference between the average incomes of recipients and potential recipients. The average income of recipients, (household head plus partner) was about £7,000 pa (1982 prices) - approximately the same as the national average, but substantially higher than potential recipients whose average household income was £3380 (1981 prices).

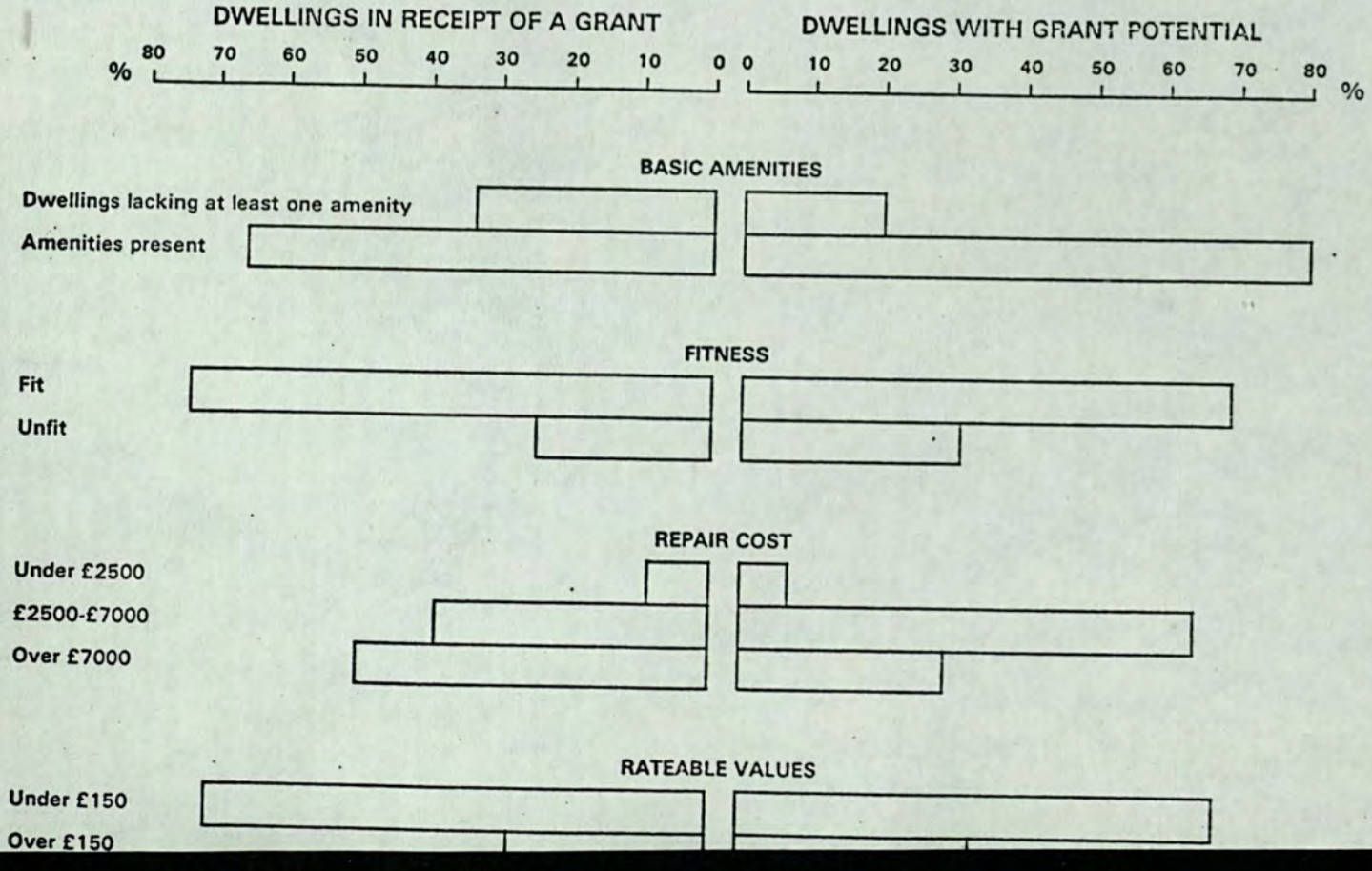
4. Grant aided work was more likely to take place when a property changed hands rather than being undertaken by someone who had lived in their home a long time. Purchase of property to improve or repair played an important role in improving the condition of some of the worst stock. One-third of the properties bought immediately prior to grant aided work taking place were unfit and half lacked at least one basic amenity. Taking on a property in need of repair and improvement provided a valuable step into owner occupation. Over 60% of people who took on a house to improve or repair were first time buyers; 50% of all purchasers are first time buyers.

5. As might be expected, people who obtained grants were more perceptive and concerned about the condition of their property than potential grant recipients, Fig 1. Over one third of recipients had undertaken some work to their house before they applied for a grant.

Dwellings on which Grant is paid

6. Targeting of grants had been effective in providing amenities and directing resources to dwellings in serious disrepair (Fig 2). However, the grant system picked up fewer unfit dwellings than might be expected.

Figure 2 : DWELLINGS IMPROVED BY GRANT



7. The three types of grant were directed to different sectors of the stock. Improvement grants concentrated on the worst houses: 40% went to dwellings which were unfit; 60% to houses with repair costs in excess of £7000: and half to houses lacking at least one basic amenity. Repairs grants went to dwellings in relatively better condition: just over 10% were unfit and 40% had £7000 + repair costs. By definition all intermediate grants provide basic amenities: they went to unfit houses in 25% of cases and dwellings with repair costs over £7000 in 40% of cases.

8. Grants generally were given for dwellings which commanded low market values. This was partly due to their type, the majority being small terraced houses built before 1919, as well as their condition. 70% of grant-aided dwellings had rateable values below £150. Where a property had been bought immediately prior to improvement or repair work being carried out, the average purchase prices was £16,000 - substantially less than the national average of £25,600 (1982 4th quarter [1]) and £2460 below the average for older terraced houses.

Works Carried Out

9. In over one third of cases the local authority inspector said that work needed to be carried out in addition to that identified by the grant applicant. Grant aided work concentrated on the essential work such as repairs to the structure of the property and the provision of basic amenities. Grants resulted in the installation of at least one basic amenity in one third of cases. If only improvement and intermediate grants are considered this increases to two thirds. Repair work was undertaken on roofs and walls/chimneys for 70% and 65% of dwellings respectively. In contrast less than 20% of grants provided for the installation of central heating (if only improvement grants are considered, central heating is installed in just over one third of cases).

10. The majority of grant recipients were satisfied with their accommodation following grant aided work although over one third felt there was still work to be done. Improvement grants provided the most complete job, only 10% of these recipients considered further work to be necessary compared with 40% of other grants recipients. However, little of the work still required related to the dwelling's structure, with perhaps the exception of external walls and damp proof course where further work was considered necessary in 15% of cases. Most of the other work still to be done related to plasterwork and internal fitments.

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1 Figures from Nationwide Building Society

Sources of Finance for Grant Aided Work

11. Grant percentages given by local authorities do not fully reflect the recipient's level of contribution to the total cost of grant-aided works. Not all work carried out was considered eligible by local authorities; and costs often exceeded eligible expense limits. This was particularly true for improvement and intermediate grant recipients. On average such grants contributed less than 60% of the total cost of work whereas the average rate of grant quoted by authorities was 72% and 86% respectively. For repair grants quoted grant rates more closely corresponded to the effective rates received by recipients. Grants contributed 76% to total costs.

12. Almost half of recipients managed to finance their share of costs using savings alone and a further 10% used savings and other sources of funds. Of all recipients over one third resorted to a mortgage or loan for all, or part of their share of the costs. Where money was borrowed, banks and building societies were especially likely to be used, each accounting for 40% of borrowings. Relations or friends were lenders in 10% of cases.

Role of Grant

13. The DGE sought to establish how far the evailability of grant had influenced householders' decisions to buy and to renovate the houses in which they lived. Although respondents gave consistent information, these results need to be intepreted with caution, particularly where people were answering hypothetical questions about their actions had grants not been available.

14. Most people said they were aware of grants when they decided to do the work but less than 15% said grants were the main reason for carrying out the work. The condition of their property was such that some work would have had to have been done. Grant availability did play a greater role in the timing of the work: almost one third of recipients cited this as a reason for carrying out the work at that particular time. This was the case particularly where the main reason for the work was a leaking roof or general repairs.

15. Where people are buying a property which is known to be in need of improvement or repair, it might be expected that grant availability would play a substantial role in the decision to do so. Two thirds of those who had bought poor

condition property were aware that grants were available before they decided to buy but only half of this group felt that grants influenced their decision.

16. Taken at face value these results and the fact that three-quarters of recipients said they would have done at least some of the work even if they had not had a grant, suggest that people are not unduly influenced by grant availability in their decision to improve or repair their house. However, this underestimates the importance of grants. It is clear that, in many cases where recipients said they would have done work, either less work would have been done or it would have taken longer to complete, or both. Roofs would not have been repaired in one third of dwellings and roof timbers, walls and chimney stacks would have been left untouched in 40% of cases. In over half the cases where people would have carried out at least some of the work, completion of that work would have taken at least five months longer than it would with a grant.

17. One quarter of the people who said they would have done some work unaided claimed they would have found the money from savings. Over half said that they would have financed it with a mortgage or loan. However on the basis of the information which they supplied about their income, savings and mortgage commitments it is highly questionable whether all those who said they would have done some work could have afforded to do so. About 40% of all recipients would have done at least some work without grant and probably would have been able to find the necessary funds. Over one third, whilst saying they would have done some work, would have been unlikely to obtain the necessary finances.

The effect of the proposed new system

18. If the proposed new grant system had been in force during the period covered by the DGE, 34% of those who received grants would have been ineligible (25% had incomes above £10,000; 20% had over £4000 in savings). The proportion of recipients who bought a property in order to improve it would have been substantially reduced, as would the proportion of those in higher socio-economic groups. There would have been an increase in the proportion of elderly recipients and those who were unable to pay for the work.

19. It is important to emphasise, however, that the scale of the changes proposed to the grant system make it very difficult to predict the future pattern of grant take-up simply on the basis of past evidence. Some of those on low incomes who are

at present ineligible for grants would become eligible for the first time. The proposed extension of mandatory grants to cover all houses below the tolerable standard ought to increase the proportion of grant aid going to such properties. The development of agency services is an important tool for increasing take up, particularly among the elderly.

B. WALES

20. A Distribution of Grant Enquiry was carried out at the same time in Wales. Many of the findings were similar to those in England but there were some important differences. The following paragraphs highlight the major results for owner-occupiers in Wales.

21. The characteristics of grant recipients were broadly similar to those of heads of households of substandard dwellings in Wales, although 55% of recipients were in full-time work compared to 41% of the target population (as identified in the 1981 Welsh House Condition Survey). Of those in work, professional and managerial classes represented 17% of recipients compared to 6% of the target population. 33% of all grants went to OAPs whereas OAPs made up 45% of the heads of households of the target substandard stock.

22. Most grants went to households with low incomes. The average reported household income of recipients was £5,200; 80% had incomes of less than £8,000. 50% of grant recipients had savings of less than £1,000 and only about 7% had savings of over £4,000. Over half (54%) financed part or all of their share of the costs from savings while a third borrowed to pay part or all of their share.

23. Improvement and Intermediate grants tended to go to dwellings in the worst condition while Repairs grants were more likely to go to dwellings in relatively better condition. 28% of Improvement grants and 38% of Intermediate grants went to unfit dwellings while for Repairs grants the figure was 20%. In all, 24% of grants went to unfit properties and a further 23% went to properties which were fit but lacked amenities. Another 25% of grants went to fit properties with all amenities which were in need of repairs over £7,000. Thus over 70% of grants went to these substandard dwellings; this figures rises to over 90% if a repair threshold of £2,500 is used. Grant aided dwellings tended to have a low rateable value: under £150 in 90% of cases.

24. Some 90% of the recipients said that they knew of the existence of grants when they decided to do the work. About a quarter of recipients chose to undertake the work at that particular time because of the existence of grants. Very few recipients considered that the availability of grants alone was a factor in undertaking the work; usually recipients seemed to identify the need to repair or improve their property and then looked at the methods of financing.

25. About 70% of recipients said that they would have undertaken at least some or all of the work without the aid of a grant. However the survey suggests that, taking account of income and borrowing potential, about 60% of grant recipients would have found difficulty in financing the total cost of the works without a grant.

26. The effect of the current proposals for grant eligibility during the period covered by the Distribution of Grant Enquiry in Wales would have been to exclude about 14% of those who received grants (12% had incomes in excess of £10,000 and 7% had savings over £4,000).

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ANNEX II

HOUSING STANDARDS

I. The tolerable standard

1. The present statutory minimum standard of housing in England and Wales is one of fitness for human habitation. This standard is contained in Section 4 of the Housing Act 1957 (as amended). Where houses fail to meet the standard, local authorities are required to intervene to ensure that they are dealt with either by renovation or, if this is not possible at reasonable cost, by demolition or closure.

2. The Government believes that a minimum standard will continue to be needed to ensure that people do not live in dwellings which endanger their health or safety. However, it feels that changes to the fitness standard are desirable, particularly in order to make it more objective. A house fails to meet the fitness standard now "if and only if it is so far defective in one or more ..... matters that it is not reasonably suitable for occupation in that condition". This requirement introduces a large subjective element into the consideration by the Environmental Health Officer and the local authority. In the past this was less of a problem than it is today. When the 1957 Act standard was introduced most of the houses which were unfit for human habitation by modern standards had clearly been so ever since they were built. There are far fewer such properties today. Increasingly, dwellings which were once acceptable are falling below the minimum standard as a result of structural deterioration.

3. For the future, therefore, the Government proposes to revise the standard, as well as making some changes to the way it is used. It feels that the most appropriate course is to adopt in England and Wales a new tolerable standard along the lines of the existing Scottish system of that name. The proposed standard is set out in full at Appendix A. As with the Scottish standard a dwelling in England and Wales will automatically be below the tolerable standard if it fails in one or more respects to meet the requirements set out.

4. The content of the standard will be the same as the present Scottish standard except

i. that it will include requirements

a. for the dwelling to be "free from serious and dangerous disrepair". The state of repair of a house already features in the existing fitness standard. Given the increasing importance of disrepair, and the fact that defects of this kind put at risk those living in the dwellings, such a requirement seems essential; and

b. for the provision of a fixed bath or shower. Accommodation which does not have such facilities is unacceptable by modern standards of hygiene;

ii. that it will not include requirements for artificial lighting and heating, which are not included in the present fitness standard but are (and will continue to be) components of the 10 point/30 year standard (see below). To require electric lighting could be prohibitively expensive in some rural areas; and artificial lighting provided by portable appliances would relate more to the way in which the house was used by a particular occupier than its structure. The provision of space heating raises much the same problem: unless the facilities are fixed (eg central heating) their presence will depend on the preference of the occupying household.

5. The proposed tolerable standard would continue to be the standard below which local authorities were required to intervene to ensure dwellings were renovated, closed or demolished. Where renovation was appropriate, dwellings below the tolerable standard would be eligible for mandatory home improvement grants.

II. The 10 point/30 year standard

6. There has been a 'target' standard for the condition of the stock for many years. Since 1974 this has been the "10 point/30 year standard". Dwellings renovated with the aid of improvement grants have generally been expected to meet this standard which, as its title indicates, implies that property is in good condition and can be expected to have a further useful life of at least 30 years.

7. Subject to some small changes of wording, the Government intends to continue using the 10 point/30 year standard as the condition which dwellings are expected to be in after a discretionary home improvement grant has been paid (though local authorities will have the option of requiring instead that dwellings are merely put into reasonable repair, where attainment of the full 10 point/30 year standard

would not be an economic proposition). However, for the first time it is proposed that the 10 point/30 year standard should also be the maximum level towards which grants can be paid.

8. The standard is set out in full at Appendix B.

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APPENDIX A

PROPOSED TOLERABLE STANDARD FOR HOUSING IN ENGLAND AND WALES

A dwelling shall be held to meet the tolerable standard if, in the opinion of the local authority, it

a. is structurally stable;

b. is substantially free from rising or penetrating damp;

c. is free from serious and dangerous structural disrepair;

d. has adequate natural lighting and ventilation;

e. has an adequate piped supply of wholesome water available within the dwelling;

f. has a sink provided with a satisfactory supply of both hot and cold water within the dwelling;

g. has a water closet available for the exclusive use of the occupants of the dwelling and suitably located within the dwelling;

h. has a fixed bath or shower provided with a satisfactory supply of both hot and cold water;

i. has an effective system for the drainage and disposal of foul, waste and surface water;

j. has satisfactory facilities for the preparation and cooking of food;

k. has satisfactory access to all external doors and outbuildings.

APPENDIX B

THE 10 POINT/30 YEAR STANDARD

A dwelling will reach the 10 point/30 year standard if it

- is likely to have a useful life of at least 30 years;
- is in reasonable repair;
- has all the standard amenities; and

i. is structurally stable;

ii. is substantially free from rising and penetrating damp;

iii. has adequate natural lighting and ventilation;

iv. has adequate and safe provision throughout for artificial lighting and has sufficient electric socket outlets for the safe and proper functioning of domestic appliances;

v. has an adequate piped supply of wholesome water available within the dwelling and an effective system for the drainage and disposal of foul, waste and surface water;

vi. has a satisfactory internal arrangement and satisfactory access to all external doors and outbuildings;

vii. has satisfactory facilities for the preparation and cooking of food;

viii. has adequate facilities for heating;

ix. has proper provision for the storage of fuel (where necessary) and for the storage of refuse; and

x. has adequate thermal insulation in the roof-space.

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ANNEX III

OWNER OCCUPIERS' ELIGIBILITY FOR GRANTS

Introduction

1. Since 1974 the main criteria by which owner-occupiers' eligibility for grant has been judged have been the condition of the property; its age; and its Rateable Value. The Government intends to make some changes to the rules determining the condition of dwellings eligible for financial assistance and to make discretionary help available for property constructed before 1 January 1940. It has also looked carefully at the operation of Rateable Value limits and decided that the system should be changed. This Annex sets out the reasons for that decision, the possible options, and the principal benefits and problems associated with each.

2. Rateable value limits at present are £400 in London and £225 elsewhere. These apply to all owner-occupiers except where the dwelling is in a Housing Action Area or is eligible for a mandatory grant. In all, there are some 2 million owner-occupied dwellings in England in a condition which would make them eligible for home improvement grants. About 1.5 million are within the existing Rateable Value and age limits.

The Decision Rules

3. Assuming that financial help will continue to be available in the form of grants, the Government has had four objectives in mind in looking at the present Rateable Value system and alternative ways of assessing eligibility for grant. These are:-

(i) to include in the system those who cannot afford to do necessary work to repair or improve their homes without grant;

(ii) to exclude those who are able to afford necessary works;

(iii) to make the system as cheap and administratively simple to operate as possible while securing value for public money and safeguarding against abuses;

(iv) to make the system as attractive as possible to deserving would be applicants.

4. Each of the options has been assessed against these objectives. Administrative simplicity and attractiveness to applicants - which usually go together - are fairly easy to assess. Calculating whether those who live in unsatisfactory housing could afford to carry out the work which is needed is more difficult but can be done using information collected in the 1981 English House Condition Survey about the income and savings of owner-occupiers living in unsatisfactory dwellings, and the cost of work needed to their homes. The method involves assessing each household's ability to raise finance and comparing the amount which dould be raised with the cost of carrying out necessary improvements and repairs to that household's dwelling. Households are assumed to be deserving of grant where their ability to raise finance is less than the cost of work needed.

The Options

5. Apart from Rateable Value limits, the Government has also looked at the possibility of introducing a simple 'passporting' system, under which those households who met certain criteria (eg headed by an old age pensioner, or in receipt of Supplementary Benefit) would be eligible for grants, and at systems taking account of income; income and savings, and income savings and cost of work needed to the dwelling.

6. The existing system based on Rateable Values is simple for applicants to understand and local authorities to administer. It is, however, bad both at excluding from eligibility those who can afford to pay for the work needed without the help of a grant, and at including those who cannot afford to undertake the work without some financial assistance. At present in England

- over 500,000 households who could afford to pay are included and

- about 150,000 households who could not are excluded.

Nor can these problems be solved by changing the Rateable Value limits. This is because there is little relationship between the Rateable Value of dwellings and the ability of owner-occupiers to finance necessary improvement and repair work.

Although those living in larger houses do tend to have greater incomes, this is offset by the fact that the cost of renovation work needed also tends to increase with the size of the property (and thus the Rateable Value). The Government has decided that Rateable Value is not an appropriate method of determining eligibility for home improvement grants, and that an alternative must be found.

7. A simple passporting system is very attractive in theory. Unfortunately, the characteristics of those living in unsatisfactory housing who need financial assistance to enable them to carry out essential work are such than many fall outside groups such as Supplementary Benefit receipients or old age pensioners. Such a system would not, therefore, work in practice.

8. The three remaining options, considered in detail below, are

Option A A full means test, involving an assessment of ability to raise finance (based on income and savings) in comparison with the cost of work needed. Any household whose ability to raise finance is less than the cost of improvement and repair work required is eligible for grant; households who are assumed to be able to raise more money than the work would cost would not be eligible.

Option B A test based on household income (though taking some account of savings) with the grant level payable to those eligible tapered according to both level of income and cost of work needed.

Option C A test based solely on household income, with grants tapered taking income alone into account.

9. Tapering grant rates is necessary in order to make the system more equitable and avoid very abrupt transitions from high rates of grant to zero. Option A in effect combines an eligibility test with an in-built taper.

Option A: The Full Means Test

10. This system is based on excluding all those who are assumed to be able to raise the full cost of work needed to improve and repair their homes (by borrowing against the income of head of household and partner, and use of savings down to a level of £4000), and including all those who, without a grant, would be unable to

raise the finance to carry out essential work. By comparing a household's resources with its 'needs' (in this case the need to spend on renovation work) this option is similar in concept to existing means tests such as that used for Supplementary Benefit.

11. By definition this system provides perfect targeting in terms of exclusion and inclusion of those who can and cannot afford to pay for work. In these respects it is superior to all other systems. About 1.1m households would be eligible for grant.

12. There are, however, major problems with such a system, particularly:

(i) the administrative costs, which would be much larger than for other options. The local authority would need to establish both the applicant's financial circumstances and the cost of the works before it could form a judgement about his ability to pay.

(ii) verification of savings, which would present difficulties.

(iii) the likelihood that such a complicated system would deter many of those the Government is keen to see applying for grants.

Option B: The Income and Savings Test

13. Eligibility is determined by the gross income and savings of the head of the household and partner. Those with incomes of less than £10,000 and savings of less than £4,000 would be eligible for grant. Those on Supplementary Benefit and FIS would be eligible automatically for grants of up to 90%. About 1.3m households would be eligible for grant in principle.

14. Access to grant for those meeting the basic test would then be controlled by a taper as follows. (Only those with savings under £4,000 eligible).

Annual Income	Share of Costs met by applicant	Maximum Amount of grant[1]
Less than £6000	25% of eligible work	75% of eligible work

[1] Authorities may pay lower rates of grant at their discretion except for mandatory grants. Applicants receiving Supplementary Benefit or Family Income Supplement would be eligible for 90% grants.

Less than £8000	First £1000 of eligible work + 25% of rest	75% of costs about £1000
Less than £10,000	First £2000 of eligible work	75% of costs above £2000

15. The existing rateable value test excludes from grant some 150,000 households who cannot afford any of the cost of works to their dwellings. It is necessary to reduce this figure drastically. This option does so; to about 60,000. Though less efficient than a full means test, which provides perfect targeting, it is simpler to operate. This option also enables some households to pass the basic eligibility test who could afford the work. Of those in this category, many, however, will receive little or no grant as a result of the operation of the taper. It is impossible to be precise about how many households who could afford the cost of works would actually qualify for grant under this option; the number depends on the relationship between resources and cost of works in particular cases; but the number would probably be something under 200,000 households.

16. The quality of targeting achieved by this option cannot be radically improved by using different income and savings figures. Only a full means test does that. Taking a savings figure lower than £4000 has no significant effect; and changing the income figure has some adverse results. While at an income of £10,000 only some 60,000 households who cannot afford any works are excluded, that figure increases to over 100,000 at an income of £8000.

17. The basic test of eligibility for grant used in this option is fairly simple to operate, though the problem of verifying savings recurs. Administrative costs per grant approved should be cheaper than a full means test, but not as cheap as Option C below.

18. For the rest, the tapering arrangements, while going some way towards the qualities of a full means test, do not take account of capacity to borrow. They would provide less support for middle income households carrying out modest amounts of works (on the basis that they should be able to afford these themselves) and favour those with high repair bills. As with a full means test there would be some abortive investigation and inspection work by local authorities in examining the proposals of applicants who turned out not to be eligible once the cost of their work was known.

Option C: The Income Test

19. This test is based solely on the gross income of head of household and partner. No account is taken of savings or cost of works. Some 1.5m households qualify for grant using an annual income of £10,000 as the cut-off.

20. Again access to grant would be controlled by a taper, but based purely on imcome.

Annual Income	Maximum Grant Rate[1]
Under £6000	75%
Under £8000	50%
Under £10,000	25%

21. The great virtue of this system is simplicity and ready comprehensibility. Around 55,000 households would be excluded who could not afford any necessary works. Using £10,000 as the cut-off, over twice as many households who could afford works pass the basic eligibility test as compared with Option B though the taper would ensure that many received relatively low rates of grant. If a lower income figure is used, say £8000, the number of those included who could afford works falls to about 300,000, but the numbers who are excluded and who could not afford any works rises to around 90,000.

22. This option differs from Option B in two main areas:

(i) the absence of a savings bar. Although such a bar improves targeting it does so at the expense of importing an extra test which is difficult to verify.

(ii) the use of a taper which disregards the cost of works. Though a taper including cost of works is undeniably fairer and secures a closer approximation to the greater efficiency of a means test, the arguments against it are those of slightly greater complexity and uncertainty which could put off grant applicants.

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[1] Authorities may pay lower rates of grant at their discretion except for mandatory grants. Applicants receiving Supplementary Benefit or Family Income Supplement would be eligible for 90% grants.

Conclusions

23. These options present a choice of systems ranging from the well targeted but administratively complex to the simple but less well targeted. All cope well in terms of including in the system those who cannot afford to pay for work. The trade-off is between administrative complexity (and possible discouragement of take-up) and including in the system more of those who can afford to do the works.

24. Options B and C both let through the basic eligibility test numbers of households who could afford to undertake works and who would be excluded by a full means test, though their subsequent entitlement to grant is subject to the effects of tapering. The key distinctions between options B and C are:

(i) the inclusion of savings in the eligibility test;

(ii) the inclusion of cost of works in the taper.

It would be possible to construct an amalgam of Options B and C which includes savings but tapers only on income.

25. There is much to be said for the inclusion of savings in the scheme: though not readily verifiable, in principle it improves targeting (by about 170,000 households) and undoubtedly improves the system in terms of value for money.

26. As to whether targeting should include cost of works, the choice is between an imperfect introduction of some features of the means test, or going deliberately for the simplest taper practicable. Substituting an income only taper in Option B makes no very significant difference to the total numbers qualifying for grant, but a taper which includes works cost ensures that the amount given in a particular case is better related to what the individual actually needs. The quantum of grant payments and the relative rates of grant payable can be adjusted as desired in either system.

CONFIDENTIAL

ANNEX IV

ADAPTATIONS FOR THE DISABLED

1. Since 1974 the home improvement grant system has been used to provide financial aid to disabled people who, as a result of their disability, require structural alternations to their homes (Social Services authorities are responsible for non-structural features such as the provision of aids and equipment.) In England, the last five years (1979-1983) have seen 25,800 grants given for this purpose, with 2,000 such grants in Wales.

2. This system has never been entirely satisfactory. The shortcomings stem from the fact that the home improvement grant system is based on the condition of the property rather than the physical needs of the occupant. Grants for the disabled are frequently made for dwellings which would not normally be eligible for home improvement grants. The Government has therefore been considering ways in which the needs of the disabled can best be taken into account in the future. The possibilities are as follows:

a) adaptations for the disabled could be funded as part of the new home improvement grant or loan system. Assistance could, as now, be mandatory for installing basic amenities and discretionary for all other adaptations. It would be for consideration whether help for the disabled should be subject to the suggested test of household income and savings. Some special provision would be needed to take account of the particular requirements of the disabled. For example, the age limit on eligibility for dwellings would need to be waived, as would the requirement for dwellings to be below the 10 point/30 year standard before, and not to be above that standard after, the work has been carried out. Such provisions would avoid the need for a separate system for the disabled but would inevitably complicate the main system. There would still be some circumstances where help for the disabled were not possible: for dwellings under construction, for example, and for improvements which did not involve work to the structure of the dwelling;

b) The legislation could provide a separate grant or loan system for funding adaptations. (Disabled people would also have access to the main system to obtain assistance towards the cost of ordinary improvements and repairs unrelated to their disability.) Such arrangements would allow help to be

given towards the alteration of dwellings under construction. There would be more flexibility in determining the boundary between mandatory and discretionary help: if it were thought desirable, all assistance for those meeting certain requirements relating to their disability could be made mandatory. Such a system would also mean that contributions could be paid towards any kind of work. It would, however, involve establishing and operating a second grant or loan system and giving sufficient publicity to help for the disabled to ensure that those likely to benefit were aware of the existence of the system. There would be some cases in which ordinary repairs or improvements needed to be carried out at the same time as adaptations; in such circumstances the applicant would need to make two separate aplications.

A separate system for the disabled could be administered either by housing authorities (the district councils), or by those local authorities which are responsible for social services (county councils, outside London and the metropolitan areas). Social services authorities are already responsible for assessing the need for adaptions under the Chronically Sick and Disabled Persons Act 1970, and it is occupational therapists employed by such authorities who usually advise housing authorities on grants for alterations to disabled people's housing. Social services authorities do not at present have the administrative machinery for operating a home improvement grant system, nor are they staffed by personnel who would be able to assess the condition of the housing stock, over and above the needs of the disabled occupant. Furthermore, were the responsibility to lie with social services authorities, disabled people seeking grants towards adaptions and towards repairs and improvements unrelated to disability would need to apply to two separate authorities. Housing authorities have experience in dealing with grant-aiding major works to private dwellings - home extensions, for example. A grant scheme administered by housing authorities would enable disabled people's housing needs to be dealt with by the same agencies that deal with housing needs in general.

3. The Government would welcome comments on the best way of providing help for adaptations for the disabled in future. Further consultation will take place as necessary on the details of the new system in the light of comments received on the broad approaches set out above and of decisions taken on the arrangements for home improvement grants or loans.

Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

Minister for Housing and Construction

cc Press Office
(This was cleared with us)

The Editor, The Times

3 January 1985

Dear Sir

In his letter (2 January) Mr John Perry made a number of points about the backlog of repair of the housing stock.

The 1981 English House Condition Survey was one of a series. A judgement about the condition of our housing stock is best made against the background of the earlier surveys in 1971 and 1976. Ten years after the 1971 survey, the number of dwellings lacking one or more basic amenity - which include an inside WC, a fixed bath or shower, and a hot and cold water system - had fallen from 2.8 million to 0.9 million. The number of unfit dwellings remained at about the same level of just over 1.1 million and those requiring repairs costing more than £7000 (in 1981 prices) increased from 860,000 to 1,050,000.

Since 1981, substantial progress has been made in tackling disrepair. The main problem is in the private sector, where individual owners are responsible for maintaining their homes. The Government helps those in greatest need by making grants available to carry out essential repairs and improvements. In 1980/81, before the latest house condition survey, expenditure on repair and improvement grants was £129 million. In 1983/84 it was £910 million. This year it is likely to be about £750 million.

Even this increased expenditure carried out with the aid of grants is a small part of total spending on maintaining the housing stock. It is estimated that owner-occupiers and private tenants and landlords spent about £8 billion in 1983/84 on maintenance, repair and improvement of their houses. In the same year, capital investment by local authorities to repair or improve their existing stock was £1.1 billion and they spent a further £1.2 billion of current expenditure on maintenance and repairs. All of these figures have been increasing, not decreasing, as Mr Perry implies.

Patrick Jenkin's announcement in the Commons on 18 December did not affect the planned level of public investment in housing in 1985/86, which remains at £3055 million, as set out in the autumn statement on 12 November. The purpose of the measures announced on 18 December was to reduce the risk of a breach of the local authority cash limit for next year.

The Building Research Establishment has carried out a series of studies of prefabricated reinforced concrete houses and has begun a major investigation of problems affecting large panel systems of construction.

The Government expects the next house condition survey to be carried out in 1986.

Yours faithfully

IAN GOW

3 JAN 1985

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Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

Minister for Housing and Construction

Note: Cleared with Mr Kingham by telephone.

DAB 3/1

2 January 1985

Dear David,

REPAIR OF THE HOUSING STOCK

We spoke earlier today about the letter in this morning's Times from Mr John Perry.

My Minister gave an interview to BBC Radio 4's "World at One" programme on the subject at lunchtime today and now proposes to respond to Mr Perry by sending the enclosed draft letter to the Editor of The Times.

I understand that if the letter is to be published on Friday, it should reach the newspaper by 2 pm tomorrow. I would therefore be grateful to know if you, or the others to whom this letter is copied, have any comments on the draft, by mid-morning tomorrow.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), David Morris (Lord Privy Seal's Office) David Peretz and Richard Broadbent (Treasury).

Yours sincerely,

Neil Kingham

N KINGHAN
Private Secretary

David Barclay Esq

DRAFT LETTER TO THE EDITOR, THE TIMES

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landlords spent about £8 billion in 1983/84 on maintentance, repair and improvement of their houses. In the same year, capital investment by local authorities to repair or improve their existing stock was £1.1 billion and they spent a further £1.2 billion of current expenditure on maintenance and repairs. All of these figures have been increasing, not decreasing, as Mr Perry implies.

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LETTERS TO THE EDITOR

oviet reaction to DI programme

om Mr Gerald Frost

, Lord Kennet asserts (feature, cember 19), as if it were a self-ident truth, that the introduction an SDI (strategic defence tiative) system would upset errence without putting anything its place. This may be very far m the truth: deterrence is likely to strengthened if Soviet military nners know that a significant portion of their missiles will be troyed in flight, but not which s.

hey will also be obliged to take ount of the likelihood that, ause the protection of America's strategic arsenal would have a priority, the prospect of a sive US response to a Soviet strike would be much greater in the absence of ballistic ile defence.

ord Kennet also errs in over-ing the considerable political diplomatic importance of the programme as a factor in the uct of East-West relations and ly ignores the argument in r of the SDI programme which st likely to recommend itself to peans: that, if feasible, ballistic le defence would lend a greater bility to the US nuclear ntee to this Continent because cale of the risks to America ed by that guarantee would be icantly diminished.

assertion that the pursuit of fective missile defence system compatible with the goal of limitation is only an assertion ppears to rest on the dubious ption that if we displease the s they will not wish to ate with us. Recent experience ts that military strength and ial provide a much greater ive to the Soviets to negotiate entiment.

ny event, it may well be that ucing the relative utility of the c missile a layered defence would have the effect of ing the readiness of each side ept reductions in nuclear in return for corresponding erifiable reductions by the

e are complex matters and this can be asserted with the of dogmatism which charac-Lord Kennet's remarks, at t until the SDI programme more about the technological and limitations of the envisaged. Those who, like nnet, grandly seek to advise ations on "their duty to y" cannot be excused the ual effort and patience l in working out how that

Backlog on repair of housing stock

From Mr John Perry

Sir, In 1981 the Government carried out a major survey of the state of the nation's housing stock. The results were disturbing. Nearly a quarter of the stock was in disrepair. Over one million houses were unfit for human habitation. Many of the occupants of bad housing were found to be poor owners who could not afford repair costs.

Nearly one-third of our housing was built before the first world war and half of it needed more than £2,500 of repairs. If anything, the survey underestimated the scale of the problem in newer housing where widespread structural faults associated with prefabricated building systems are increasingly evident. The backlog of repair work is now estimated at £30 billion.

Presumably the purpose of surveys of this kind is to influence policy. Local authorities had already switched their housing resources overwhelmingly to repair work. For a time – the period before the election – they appeared to receive belated encouragement from Whitehall. Even the Prime Minister exhorted authorities to "spend, spend, spend". Their protests that it was the Government's own rules that inhibited spending programmes were dismissed as excuses.

Now of course, it is as if the *English House Condition Survey* had never been published, as if Michael Heseltine (as Environment Minister) had never promised "to reverse the decline in the rate of attack on substandard housing". The Treasury dogma which sought out housing as the soft underbelly of public expenditure has returned with a vengeance.

Not content with cuts that have reduced spending by two-thirds since 1979, the Government is now introducing rule changes that restrict authorities from reinvesting money which they were encouraged to obtain by selling council houses (report, December 19). Many authorities will have so little money that they will be unable to enter any new contracts at all next year. Housing investment in 1985 will plummet to a new low. It is already less than half that of any of our EEC partners.

Surely the Government cannot believe that its brief pre-election spending spree was sufficient to make inroads into the backlog of repair work? Of course not. The plain fact is that the Government no longer cares whether poor owner-occupiers get grants, council tenants are in disintegrating tower blocks or 400,000 building workers are unemployed.

Everything is sacrificed before the Treasury's cash limit. Everything, of course, except mortgage tax relief, which soars ahead of new investment, unconstrained by Treasury rules. It is tax relief which now gets the Prime Minister's personal endorsement.

The insanity of the Government's houses policy will be demonstrated by the 1986 house condition survey. Unless, of course, it becomes another convenient victim of the cuts.

Yours faithfully,
JOHN PERRY, Chairman,
Housing Working Party,
The Royal Town Planning Institute,
26 Portland Place, W1.

Prescription of drugs

From Dr Philip R. Evans

Sir, Your leader on prescribing (December 13) fails to understand the genuine professional concern of many general practitioners about the Government's plans for implementation of a limited drug list. A considerable number of doctors are sympathetic to the idea of a limited list and some who have worked abroad, e.g., in Australia and New Zealand, know that it can work.

I suggest the present dispute between the Government and the medical profession should be used constructively in the following ways:

1. Following adequate consultation, a limited drug list should be set up and monitored by a committee made up of experts in pharmacology, therapeutics and pharmacy, with full representation of practising doctors, both hospital and community based.
2. The DHSS must ensure that no substandard drugs might be received by patients.
3. It has been demonstrated (*Prescribing – A Suitable Case for Treatment* – RCGP, Jan, 1984) that if general practitioners are given full and accurate information about their prescribing, their attitudes and habits in this area can alter to the benefit of the patient and the Exchequer.

It is naive to suppose that cheap prescribing is necessarily good prescribing. The technology to provide such information for individual doctors is available. The profession should ask for this facility; the DHSS should provide it.

Some of the anger about the Government's action is due to the lack of consultation, a rather sad failing of this Administration in a number of different areas. The present period of consultation until the end of January is clearly inadequate.

JANUARY 2 1800

During the Napoleonic Wars the pr of corn rose considerably. The Government attempted to alleviate consequent distress of the poor wi "every expedient".

Among the various expedients whi experience has shewn to be b adopted to afford substantial reli none seems to deserve so mu attention as *Soup Establishmen* These excellent institutions, whi have existed in the Metropolis f more than two years, have incontes tably proved how much can be attaine in economising the food of man, by th necessary preparation of meat an vegetables upon a large scale, in a instances where a design of this natur is properly methodized, and conducte with attention and regularity.

...The unparalled success of thes useful establishments, thus clearl manifested by attaching the lowe classes of the people to a cheap substantial, and wholesome food i none of the least of the advantage which have resulted from this fruga and beneficial mode of relieving the Poor. The numerous applications o the labouring Poor, particularly at *Spitalfields*, has not only occasioned an increase of boilers of very large dimensions at most of the old establishments, but has also excited a general disposition among the benevolent and humane to erect new Soup Houses in every part of the Metropolis, and also in the villages in the neighbourhood; and it is not doubted when the whole of the new institutions are sufficiently prepared to issue soup, that above 40,000 meals or pints will be delivered daily to the Poor at half price.

A relief so salutory and extensive, and offered (in proportion to the number of persons who will be thus fed) at so very inconsiderable an expense cannot be too highly acclaimed, since it is evident that through this medium the means are at length discovered of effectually assisting the Poor in severe seasons when the necessaries of life are high, in a manner by which the benevolence of the Opulent and Humane embraces a wider field and extends infinitely beyond what the most sanguine mind could have conceived to be possible: *since a single guinea subscribed actually affords a hearty meal to 504 persons!* and that too of food, which from its nourishing quality, strength and thickness, cannot be considered as an improper substitute for bread, the consumption of which must unquestionably be diminished wherever this aliment forms a part of the food of a labouring man's family.

... The advantages resulting from the Soup Houses in the Metropolis being thus explained, it may be necessary to state that their success is alone to be attributed to the unwearied gratuitous attention of their Conductors, who in systematizing these designs and extending their benefits in a manner not only to feed, but also to improve the habits, and in some degree, the morals of so great a

NOTE BY ALAN WALTERS : 1 JAN 85

Notes on Rent Deregulation

General

1. Decisions should be made on a Cost-benefit (CB) calculation and not on a net PSBR criterion. The net PSBR calculation ignores, for example, the net benefits accruing to landlords--except insofar as they are taken in tax. If deregulation were to result in a fourfold increase in rents, then the net PSBR cost would be very large--because of the concomitant increase in subsidies. But such a conclusion would ignore the enormous benefits of deregulation manifest in the higher rents (productivity) of free property.

[Note: General genuine benefits to the private and public sectors are shown with a small b, whereas Benefits such as Housing Benefits (HB) or Social Security Benefits, which are transfers from taxpayers to recipients, are shown with a capital B.]

2. The absurdity of the D of E criterion can be illustrated by reversing the argument. If we legislated more stringent rent controls by forcing down rents (and extending the regulations) then the (D of E) PSBR would be reduced; just as controlling the price of food would reduce Social Security benifits and so the PSBR. This provides a justification for general price control, just as the D of E criterion supports the continuation of rent control. Of course we have had enough experience with freer markets in food, electronics, furniture, etc., to know that the D of E type of case is laughable and petty. But in housing, regulated for 75 years, they are no laughing matter.

3. The D of E calculation is a flow figure for two particular years. The appropriate calculation, as any text will reveal, is the net present value. This takes account of all future revenues and costs discounted to an equivalent capital sum (now or at some other specified date). By D of E admission, most of the "negatives" occur in the first year or so and many of the big benefits appear in the medium term, so the misuse of flow figures biases the decision in favor of increased or more stringent regulation of rents.

4. Clearly D of E have selectively, and in my view rather crudely, presented data arguing against change. There may be a good political case against deregulation but one should not cloud the issue with a manifestly phoney pseudo-economic or financial case. Whatever the political costs, the net economic benefits--including those on public finances--would be overwhelmingly positive, and similar to those which appeared in all the great liberations, such as Germany in 1948, or the United Kingdom in 1951-54.

Particulars

Monckton's Note to Ian Gow

* Labour's Promised Repeal

One should also recall that the early years of the next government (1988) will see the opportunity to restructure taxes and benefits. Even a Labour government (or an SDP-Liberal government a fortiori) will want to rationalise the HB system and the rapidly dying private rental sector (down to 1.5 million by then at present rates of attrition). In 1987-88 we expect the computeristion of the tax/benefits system.

* Security of Tenure

Note that the present system precludes the freedom of negotiation; the imposition or threat of "fair rent" (what a wonderfully deceptive term!) which are required not to reflect "shortages" pre-empts any possibility of mutually beneficial free bargains. Would not an extension of the leasehold system with agreed tenure and rent arrangements do the job of assuring landlords and tenants of their rights?

* HB Cost

In addition to the amendments and addenda of the Monckton memorandum, which seem to me to be correct, I would argue that the tax receipts from the increased rents are still much underestimated (or alternatively the landlords are in the poorer sections of the community, perhaps among the benefit recipients--do we know?).

It is astonishing that the marginal benefit rate, with respect to rent increases, is 42.5 (or 43) percent, whereas the marginal tax rate is only 18 percent (i.e. L45 million in year 5 on income of L257.5+ million). If this is income and corporation tax, then landlords must be a poverty-stricken lot--and quite different from their image.

But apart from that point, the calculations presumably assume that the landlords spend their income on food and newspapers which are zero rated for VAT--an unlikely proposition perhaps except, again, insofar as they are on the poverty line--and then we must count the reduction in Benefits brought about by their increased income. And if the landlords save all their additional income then they will accumulate future tax obligations--income, outlay and capital gains taxes--in the future. Thus the future PSBRs would fall continuously. Similarly the reduction of 20 percent for repairs implies either no new activity (and this is unlikely in a sector like house repairs) or no income tax or VAT paid by the repairmen.

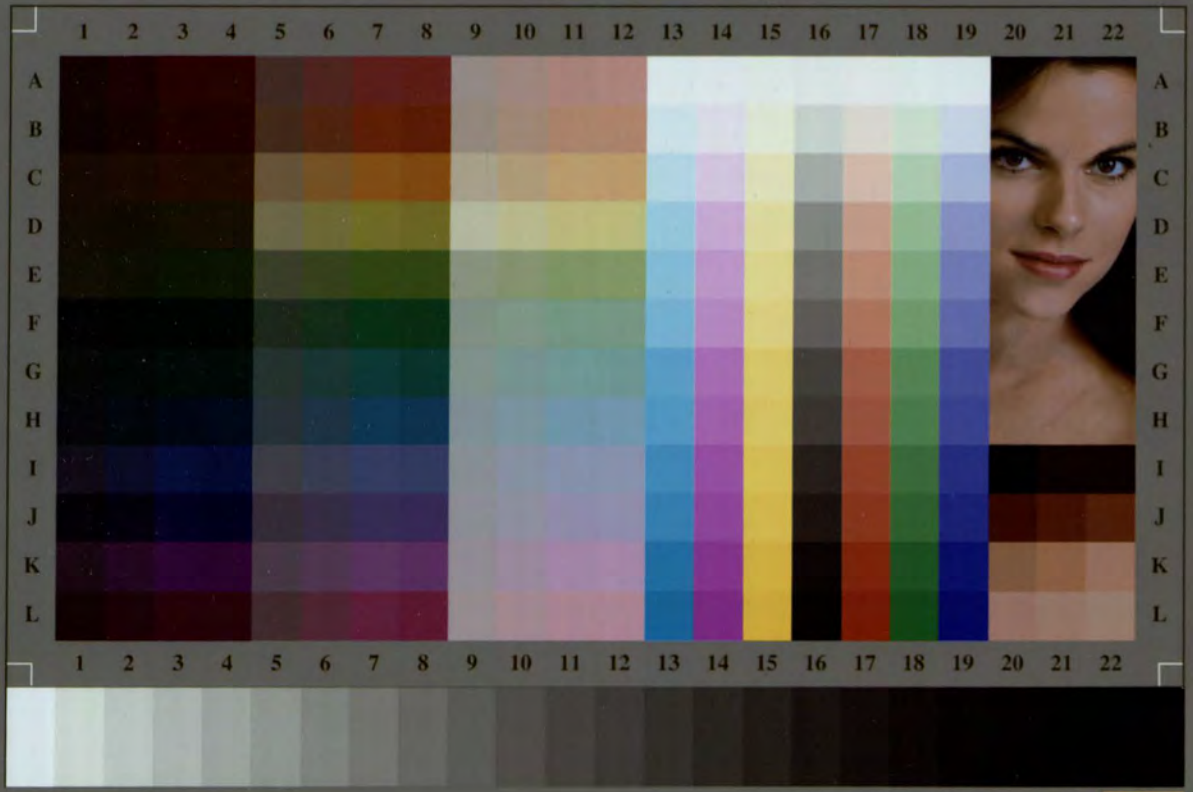
For what it is worth, my conjecture is that tax increases (income, VAT, fuel, excise taxes on tobacco and alcohol), would soak up more than 40 percent; if the tax rate is much lower (at 20 percent or less) then this must be because the marginal tax rate is low and the landlords are poor etc. The assumption that no new lettings will be made is characteristic of the perennial error of officials that the price system does not work. The lessons of the energy market etc. are ignored. Elasticity pessimism is as absurd as it is endemic (although it is true that distinguished dons, at Cambridge for example, regularly preach that the price system does not work). The fact that, because of uncertainties both economic and political, we cannot confidently predict the numerical consequences of new lettings is no excuse for making the blatantly false prediction that it will be zero. Indeed this zero prediction implies that there is a fifty percent chance of lettings being reduced by deregulation--again patently absurd.

PART 4 ends:-

RIA to FERB (A084/3399) 18/12/84

PART 5 begins:-

Environment to DB 2/1/85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