MT.

PART 9

CONFIDENTIAL FILING

Housing Policy

Housing Bill

S 3001

HOUSING

PT 1: May 1979

PT 9: July 1987

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~6.7.87.~~							
~~13.7.87~~							
~~17.7.87~~							
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~~16.9.87~~							
~~23.9.87~~							
30.9.87							
X							
PART ENDS							

PREM 19/2235

Dd 8398366 2M 11/83 JET

PART 9 ends:-

SS/DoE To PM 30.9.97

PART 10 begins:-

LPC To PM 1.10.97

CONFIDENTIAL

SCBG

PU comments by AF 1.10.87

Prime Minister

HOUSING BILL: PRIORITIES

At the E(LF) meeting on 8 September (E(LF)(87)20th Minutes refer) I was invited in consultation with the Chief Secretary to put certain items for this Bill in order of priority.

The Chief Secretary and I are in agreement that we should press ahead with all the candidates for inclusion in the Bill, and that if possible all should be included. We are also in agreement that, of the items which I was asked to put in priority order, the topic of housing associations is the most important, and the draftsman will tackle that next. (This is on the assumption that HATs, the private rented sector and housing benefit are absolute priorities, as indicated by E(LF), and indeed they are already being drafted; the housing benefit provisions needed are in fact a relatively minor part of the private rented sector element. Also, right to buy is unlikely to involve a great deal of work for the draftsman and I hope we can reckon to include that.)

The other main items involved are right to transfer and home improvement policy. As between these two, the Chief Secretary and the Secretary of State for Wales consider that for financial value for money reasons, and because the proposals have been around for some time, we should give precedence to home improvement policy.

There is a difficult balance here. I have no doubt that right to transfer is the more important and the more politically attractive topic of the two. We made a lot of it in the Election campaign. It is now becoming increasingly clear that expectations have been generated. The housing association movement and City interests are gearing up for the change, which in their minds is closely linked with provision of private finance for housing. We must not let the momentum slacken.

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I accept that at the end of the day, for whatever reason, we may not be able to get everything in this Session's Bill that we would like. With that in mind, and remembering too that I have advance drafting authority for a further housing Bill in next Session's programme, I am now prepared to trim down the home improvement policy package for this Session's Bill to include only the means tested grant element (the topic to which the Chief Secretary attaches most importance) and directly related matters; this should reduce the material on that topic by over half. Furthermore I have now developed simplified proposals on right to transfer which will cover both houses and flats in a more economical way; and we shall be providing Counsel with Instructions on this very shortly.

If we surrender any more of the package than this, we shall be open to charges of going back on our Election commitments and losing momentum. So I hope it will now be possible to press ahead on the basis I am proposing.

I am copying this letter to members of E(LF), First Parliamentary Counsel and Sir Robert Armstrong.

pp N R

30 September 1987

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


30.X.
3 PM 87

PRESS RELEASE

FINANCIAL OUTLOOK FORECAST RELEASE

London Business School, Centre for Economic Forecasting

Volume 4 No. 4 **September 1987**

House prices and inflation

KEITH WADE

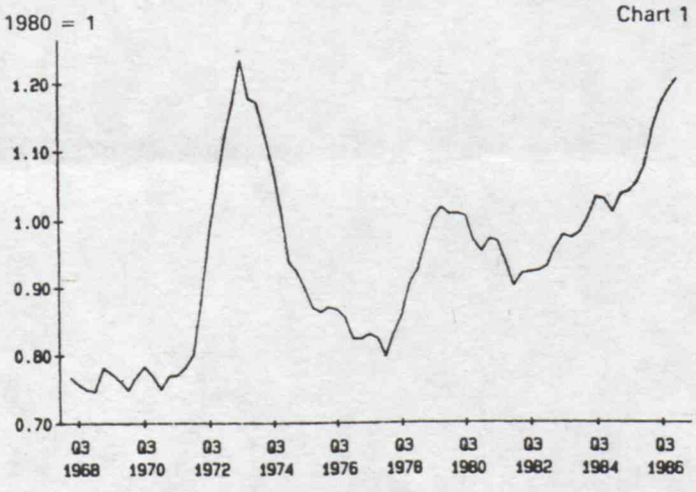
This release examines the theoretical and empirical relationship between house prices and retail prices. Alternative models are compared and assessed statistically and a simple model of house prices is estimated. Our research finds no causal link between house prices and retail prices. House prices are not significantly out of line with disposable incomes although we expect some correction through a reduction in the rate of house price growth.

Introduction

Strong growth in real house prices has been one of the most notable features of recent UK economic experience. The average price of a house increased by nearly 16 per cent in the year to the first quarter of 1987 and recent data suggest this rate was sustained in the second quarter. Over the last five years house prices have risen by over 70 per cent and, against a background of low consumer price inflation, this implies an average real gain of over 45 per cent. Furthermore, this rapid growth means house prices are now at the same real levels reached during the house price boom of 1972/73 (Chart 1).

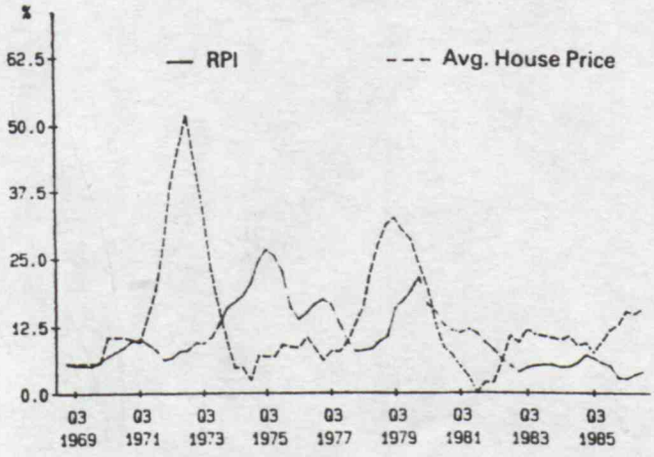
Previously commentators concentrated their concerns on the adverse effects which disparities in the rates of regional house price growth could have on labour mobility. Now the debate has broadened to the economy as a whole with fears that the recent growth in house prices will result in higher retail price inflation. In particular attention is drawn to the house price boom of 1972-73 which was followed by a surge in retail price inflation in the mid 1970s. Chart 2 illustrates the behaviour of the two inflation rates and there appears to be a link, with house prices

Chart 1



REAL HOUSE PRICES
Average House Prices (Dept. of Environment measure) deflated by GDP deflator

Chart 2



HOUSE PRICE AND RETAIL PRICE INFLATION
1968-1987

Source: Dept of Employment Gazette and Housing and Construction Statistics (Dept of Environment).

leading retail prices by a period of 1-2 years.

However an alternative explanation would be that house prices have risen in real terms with the growth in disposable income. Incomes and house prices are not out of line and there is no need for a large increase in inflation to restore equilibrium.

To assess whether the current growth in house prices has brought Britain to the brink of another inflationary surge, it is first necessary to examine possible causal links between house prices and retail prices.

Links between house price and retail price inflation

Housing costs enter directly into the RPI with a weight of over 15 per cent. Approximately one third of this relates directly to house prices which are used in the determination of owner occupiers' mortgage interest payments. The other components of housing costs, particularly rent and rates, are also likely to reflect house prices. In this section we are examining the indirect links between house prices and general retail price inflation. Empirical work seeking evidence of these indirect links should be aware of the direct link with the RPI.

Goods market prices are determined in the LBS model as mark-ups on inputs of labour costs and the costs of raw materials and energy. In particular the price of manufacturing output is determined by unit labour costs and the price of imported commodities. The sterling price of imports of finished goods directly enters the consumer price level and will also determine the degree of competition, and consequently the prices set, by domestic producers of similar goods. In turn unit labour costs and the cost of imports are primarily determined by the exchange rate ,UK money supply and world inflation.

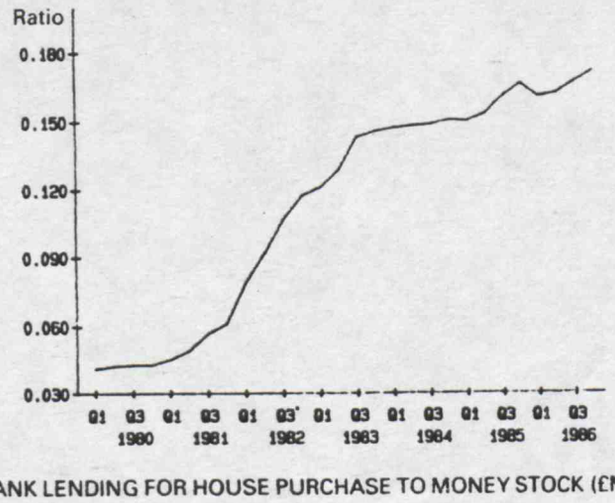
There are several ways in which house prices can enter this framework. Firstly they may influence inflationary expectations and hence wage bargaining. This was highlighted in the August Bank of England Quarterly Bulletin. The Bank noted that: "House prices may have a significance for wage bargaining beyond their direct contribution to the RPI as an element in housing costs, through their implications for downpayments and the size of mortgages to be serviced and possibly through the adverse impact of large regional house differentials on labour mobility".

If regional house price disparities restrict the flow of labour from low to high paid sectors the resulting shortage of workers in areas with high house prices may allow a high rate of wage growth to be maintained in those areas. Bover and Muellbauer (1987) find evidence to suggest that widening regional house price differentials help explain the recent stickiness of nominal wage inflation despite slowing retail price inflation.

The level of house prices may also influence aggregate demand. Strong real growth in house prices has meant many owner occupiers have made large capital gains on their properties. When consumers move house some of this gain, which is untaxed, can be realised and used for current consumption rather than reinvested in housing. Consequently through the process of equity withdrawal demand for consumer goods is increased and this may increase inflation. Equity may be released even if the home owner does not move. With higher house prices home owners can borrow more easily for other purposes securing the loan against their property.

Aggregate demand may also be influenced by the expected rate of growth of house prices. When house prices are expected to rise more rapidly than interest rates there is an incentive to borrow to invest in houses as profitable assets. To meet the increase in their liabilities Banks and Building Societies must increase their assets and therefore deposits rise. The increase in bank deposits will raise M3 and the rise in building society deposits enters M5. These increases may have potential inflationary consequences. However it is not clear that housing investment is such a profitable activity. The rate of capital gain has exceeded interest costs but when allowance for rates and maintenance costs is also made the rate of return on housing investment is reduced. This would imply that there is little speculative motive in housing investment . Chart 3 shows the ratio of bank lending for house purchase to M3. This grew rapidly when the banks first entered the mortgage market and has stabilized at just under 17 per cent of M3. Moreover the links from the rate of monetary growth to inflation have become less certain as the velocity of circulation of money has declined.

Chart 3



BANK LENDING FOR HOUSE PURCHASE TO MONEY STOCK (£M3)

Finally, if house prices rise relative to construction costs the profitability of house building increases and should bring forward an increase in supply. This in turn raises the demand for labour and materials, increasing wages and prices. This effect may only be noticeable after a long lag and its magnitude will depend on existing excess supplies of labour and materials.

Before these links are assessed empirically, one final complication should be noted. If houses are a profitable investment opportunity the level of equity withdrawal may be limited. Unlike shares or other

assets the capital gain may not be realised as consumption of goods because, by reinvesting in housing, consumers simultaneously improve the quality and value of the housing services they consume and increase their expected absolute capital gain. Alternatively, home owners may choose to reinvest the gain in other assets. Another consideration which might restrict the impact of rising house prices on consumption is the number of first time buyers, higher house prices, as noted above, imply higher downpayments and mortgage interest repayments leaving less income for other purposes and therefore depressing consumption.

Empirical Analysis

At present only one link between house and retail price inflation appears in the LBS model. The consumption function contains a small but significant wealth effect, where wealth includes the stock of residential housing. If house prices were to increase 5 per cent more rapidly than at present, the LBS model predicts a long-run rise in consumption of 0.1 per cent and an increase in inflation of just 0.06 per cent.

The theoretical framework within which retail price inflation is determined in the LBS model is described above. The specific equation for consumer prices contains unit labour costs, import costs, interest rates and expenditure taxes. If house prices are a determinant of consumer prices the addition of house prices to the existing LBS price equations should improve their ability to explain the past. To test this possibility price equations in the LBS model were re-estimated with house prices as an additional explanatory variable. We then tested to determine whether the inclusion of house prices improved the explanatory power of the equation. To allow for the effect of house prices on earnings the same procedure was carried out for the wage equations in the LBS model. The results are summarised in Table 1. In each case the effect of house prices is very small and not significantly different from zero. The only exception we found was in the equation for consumer durable prices. However the long-run effect here is perverse, an increase in house prices reduces the rate of consumer durable price inflation.

Table 1

Effect of House Prices on Consumer Prices and Wages

Prices	Long Run	F-test
Retail Prices	0.00038	0.60
Consumer prices	0.0012	0.69
Consumer Durable Prices	−0.0584	3.74*
Wages and salaries		
Average Earnings in Manufacturing	0.0177	0.45
Other wages and salaries**	−0.0345	0.80

* significant (F at 5% significance level = 2.37)
** nonmanufacturing, nonpublic sector.

[Note: Current plus 4 lags of house prices were added to the existing specification.]

Another means of discriminating between competing explanations of the same phenomenon is to compare the ability of models based on different theories to explain the past. Economists at Shearson Lehman have argued that house prices do play a significant role in the determination of inflation and derive an econometric relationship to support their case. We have re-estimated their model and compared its ability to fit past observations of the retail price index with our cost based equation.

Firstly it should be noted that the Building Societies Association (BSA) house price series used in the estimation of their model has become less representative in recent years. In 1981 the banks entered the market for lending for house purchase concentrating on higher priced properties. This is thought to have exerted a downward bias to the BSA series. This is important to note because this downward bias coincides with the decline in retail price inflation and may create a better fit than a true index. The index used for the tests reported in Table 1 was the Department of Environment mix-adjusted series which corrects for this bias. Nevertheless we estimated an equation for the RPI using the BSA index and the specification described in Congdon and Warburton (1987)*. The LBS equation performs significantly better, it tracks the past more closely using fewer parameters than the model based on house prices. The standard prediction error of the LBS equation is almost half that of the rival equation. More specifically the rise in inflation in 1980 was not due to the surge in house prices in 1979 but can be explained by proximate rises in oil prices, unit labour costs and VAT rates.

The determinants of house prices

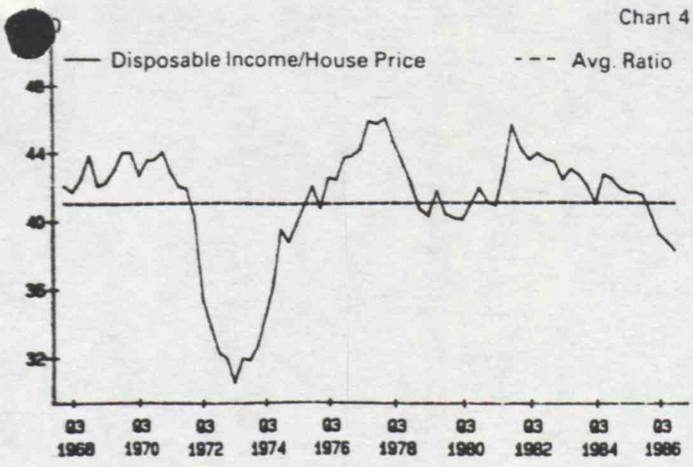
Further information about the relationship between house prices and inflation might be obtained by considering the determinants of houses prices. In particular, there may be a third variable which drives both house and retail prices.

House prices, like most prices, are determined by supply and demand. Because of planning restrictions and long construction lags the supply of new houses can be treated as fixed in the short run. When owner occupiers move the supply and demand balance is not affected. Consequently the price of houses is primarily determined from the demand side. In the medium term, demographic factors such as the number of first time buyers will be important. However, in the short run it is the ability of individuals to purchase houses which will determine demand. The main constraints facing an individual will be his earnings in relation to house prices and the availability and cost of mortgage finance.

Chart 4 shows the relationship between house prices and disposable income over the past 18 years. The ratio of income to house prices fell sharply during the 1972-73 boom but has only fallen slightly

* This was estimated in unrestricted form to obtain the best possible fit.

Chart 4



INCOME HOUSE PRICE RATIO

below its mean during the present boom suggesting that prices are not far out of line with incomes. If the ratio of income to house prices is reasonably stable then equilibrium can be restored by a reduction in the rate of house price increase. Furthermore it is possible that the equilibrium ratio may have declined as a given income can now command a greater mortgage, thus exerting more pressure on house prices. Mortgage lending has risen rapidly in the last five years and this may also influence house prices. Taking these factors and mortgage interest rates into account an econometric relationship for house prices was estimated. The long-run static equilibrium of the equation derived is

$$ph = 3.39y - 0.04h - 0.0063RM + 0.76\ pc.$$

where ph is the DoE index of house prices,y is real income, h the number of houses in owner occupation, RM the tax adjusted interest rate and pc is the consumer price index. The regression also included a term to capture non-linear price adjustment and seasonal dummies. Note there is no long-run effect from changes in mortgage lending although a short-run acceleration effect was present. Increases in the rate of mortgage lending will only raise houses prices in the short run. An attempt to measure the effect of borrowers leverage (average advance/income ratio) found no significant effect. This suggests that house prices are primarily driven by real incomes in the long run, with a weak effect from mortgage rates. The equation suggests an increase in mortgage rates of one point reduces house prices by less than 1 per cent in the long run, whereas a 1 per cent rise in real incomes increases house prices by over 3 per cent. If driven by real incomes house prices will rise faster than retail prices and hence real house prices will rise. This result is consistent with more detailed studies undertaken by the BSA (1981) and Hendry (1984), although the latter does find a long-run effect from the stock of mortgages. The evidence suggests that attempts to influence the rate of house price inflation through changes in interest rates are unlikely to be very effective. Fiscal measures which reduce disposable income will be more successful.

Conclusions

Economics contains many cases where more than one theory is put forward to explain the same phenomenon. Here we are trying to discriminate between two explanations of retail price inflation, each with very different policy implications. Econometric evidence strongly suggests that any causal relationship between house prices and retail prices is spurious. Movements in inflation can be better explained by changes in unit labour costs and it is possible that house price are acting as a proxy for movements in disposable income, which are not matched by improvements in productivity. In an economy where real incomes are rising we would expect the real price of houses to rise. The recent boom in house prices is not a prelude to a surge in inflation as house prices are not away from their equilibrium relationship with disposable income.

References

Bover, O. & Muellbauer, J. (1987), *House prices, wages and unfilled vacancies in the UK*, mimeo Nuffield College Oxford.

B.S.A. (1981), *The Determination and Control of house prices*, Building Societies Association February 1981.

Congdon, T. & Warburton P. (1987), *House price and retail prices*, UK Economic Research Studies Shearson Lehman Securities.

Hendry D.F. (1984), 'Econometric modelling of house prices in the UK in *Econometrics and Quantitive economics*, Hendry and Wallis (eds.).

Notice to subscribers

This is the final issue of *Financial Outlook*. Certain features from the journal will be incorporated into *Economic Outlook*. In the near future, the publishers will contact those of you who do not already subscribe to *Economic Outlook*.

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cc BG.

Await PS + DoE comments

PRIME MINISTER

RIVITALISING THE RIGHT TO BUY

Our legislative proposals for housing include a couple of worthwhile but minor measures to improve RTB take up. I believe that something more radical is needed. We have to face the fact that many of the economically active younger tenants have already bought. Over half the remaining council tenants are over 55 years old. Despite the fact that they generally qualify for maximum discount, it is all too clear that many of these older tenants simply cannot see themselves exercising their Right to Buy. They may feel they lack the financial resources to buy; or find the complexity of the process daunting; or simply feel they cannot take on the responsibilities of owner occupation at their time of life.

I propose that we should help these tenants by extending the Right to Buy to close relatives. The essence of my suggestion is that a qualifying relative of a tenant would be enabled to purchase the dwelling with the tenant's consent, using the well-established RTB procedures. The relative would under this "Family Right to Buy" be obliged to protect the tenant's position by granting life-long security of tenure, and the tenant's relative would thus become their landlord.

The great majority of tenants who would be attracted to "Family Right to Buy" would I believe already be entitled to maximum discount if they bought in their own right (now 60% for houses and 70% for flats). And they would of course be entitled to MIRAS on their mortgage. The relative who buys will generally not be entitled to tax relief (since it will not be his 'sole or main residence') and indeed may have to pay income tax on the net rental income. In view of these factors, I suggest that the discount rate for "Family Right to Buy" should be a fixed rate of 65% for houses and 75% for flats, irrespective of the individual tenant's discount entitlement.

I believe this scheme will prove very attractive to many council tenants and their families. It will enable the family to acquire a valuable asset and to provide a better standard of maintenance and amenity for their relative than the local authority would normally do.

The "Family Right to Buy" would reinforce our policies on the deregulation of the private rented sector by creating quite rapidly a numerous group of small landlords whose rights would be politically very difficult to attack. It would provide the missing link between RTB and RTT, with which it would be wholly compatible. Indeed, the "Family Right to Buy" could almost be seen as a special case of the Right to Transfer; but "Family Right to Buy" will be much easier for council tenants and their families to understand and to use for themselves than RTT.

I believe that the necessary statutory provisions for "Family Right to Buy", as an extension of an existing scheme whose workings are well understood, would be relatively quick and easy to draft. There would be great advantage in implementing the proposal as quickly as possible. If colleagues are attracted to my proposal, therefore, I suggest that our officials should be asked to work up urgently the details of the scheme and prepare instructions to Counsel.

/ I am copying this to E(LF) colleagues and to Sir Robert Armstrong.

28 September 1987

P W

HOUSING: Policy: PL-9



cc BG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Cathy Ryding
Private Secretary to
The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1

23 September 1987

NBPM.

Dear Cathy,

Thank you for your letter of 21 September about the draft Housing White Paper.

My Secretary of State has considered the Chancellor's amendments to paragraph 1.20 and agreed that these should be taken on board in the final version of the White Paper.

I am copying this to Private Secretaries of Cabinet Ministers and Trevor Woolley.

Yours sincerely,

Deborah Lamb.

DEBORAH LAMB
Assistant Private Secretary

This is 100% recycled paper

Housing

Policy

PT 9



PRIME MINISTER

HOUSING ACTION TRUSTS

Mr. Clarke made two proposals on Housing Action Trusts, first that a high proportion of the HATs should coincide with or be alongside Government task force areas, enterprise zones, city technology colleges and other relevant instruments of Government policy, and secondly, that one of their objectives should be the encouragement of local firms and employment.

Mr. Ridley's minute in effect gives both proposals a polite refusal. He will take these things into account but makes no promises.

On merits, Mr. Clarke is undoubtedly right. We should concentrate resources more to try to achieve what company chairmen like to call synergy, even if that means a less than optimum site for HATs when viewed solely from the point of view of housing. Similarly, it may well be worth paying a price in terms of less efficient renovation of housing in order to achieve a more general revival of a run-down area. Mr. Ridley is in effect saying that the housing objective must have absolute priority.

I suspect that Mr. Ridley's reaction may arise as much from the personal difficulties between Mr. Clarke and himself, as from a narrow-minded pursuit of Departmental objectives. This is a factor to be taken into account in deciding whether to write in support of Mr. Clarke.

Do you agree in principle with Mr. Clarke rather than Mr. Ridley? If so, would you like to write tactfully in support of Mr. Clarke or would you like to see Mr. Ridley for a general talk and to mention this then?

DN

David Norgrove
22 September 1987

DG2CFZ

cc BG

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Roy Griffins Esq
Private Secretary to
The Rt Hon Paul Channon MP
Department of Transport
2 Marsham Street
LONDON
SW1

21 September 1987

Dear Roy,

My Secretary of State has today written to the Prime Minister about Housing Action Trusts.

This should of course have been copied to members of E(LF) as well as members of E(UP). I enclose a copy of the minute to the Prime Minister for your Secretary of State.

I am also copying this to Andy Bearpark at No.10 and Andrew Wells at the Cabinet Office. I apologise for any inconvenience.

Yours sincerely,

Deborah Lamb

DEBORAH LAMB
Private Secretary

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7

PRIME MINISTER

HOUSING ACTION TRUSTS

Kenneth Clarke's minute of 3 September gave his views on my memorandum E(LF)(87)38, as he was unable to attend our recent meeting.

I was grateful for Kenneth's support for my proposals for HATs. Like him, I see HATs as one of the key mechanisms for targetting resources in the inner cities.

Kenneth asks that I should consult colleagues on E(UP) on the selection of candidates for designation as HATs. I shall be happy to discuss candidates for designation at the appropriate time in whatever forum is most suitable. And in identifying candidates I shall certainly have very much in mind the location of other existing or proposed initiaties and the extent to which the location of HATs should be co-ordinated with them. But I would not want my hands to be tied in selecting areas exclusively to those on which E(UP) may decide that inner city initiatives should be focussed.

In practice, of course, because we are dealing with areas of acute urban deprivation and decay, many HAT candidates are very likely to be in or near the areas which E(UP) will be considering. However, by virtue of their objectives, which E(UP) have agreed, HATs will be concerned primarily with housing, and the selection of particular areas will have to be justified on their own merits.

I welcome and agree with the idea that HATs should foster employment - my offcials are in touch with other Departments about the best means of achieving this. We envisage perhaps an adaptation of the type of work undertaken on Community Refurbishment Schemes through co-operation between MSC and Estate Action here. We want to see HATs working to regenerate their areas

by involving local people - but of course I would not want to see HATs make this a specific condition of contracts. HATs' primary function will be to tackle rundown housing. I do not think we could ask them to meet a specific objective about encouraging employment beyond their existing objective to enable and facilitate the provision of other community needs (eg shops, workshops etc). I should therefore prefer not to alter the list of specific objectives for HATs which we have now agreed.

I am copying this minute to other members of E(UP) and Sir Robert Armstrong.

NR

21 September 1987

CONFIDENTIAL

PRIME MINISTER 21 September 1987

HOUSING ACTION TRUSTS

Nicholas Ridley's minute to you of 21 September recommends against adopting Kenneth Clarke's proposal that encouraging local firms and employment should be added to the objectives of HATs.

This is a disappointing reaction because:

i. one of the lessons of the post-war experience is the undesirable effect of developing housing policy in isolation from economic development and the provision of social facilities. As a result we have built large estates with no employment close by and little to do, particularly for young people;

ii. the rate of unemployment and long-term unemployment amongst council tenants is 2-3 times higher than amongst owner occupiers;

iii. US experience suggests that housing refurbishment is a, if not the, main stimulus to the regeneration of poor areas;

iv. experience in Glasgow, for example the Barrowfield estate, also shows how new enterprises set up by tenants, initially to provide housing services, have spawned a range of other enterprises as well as transforming the environment on their estate.

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The key to the process whereby housing refurbishment leads to employment generation on a wider scale appears to be enabling tenants to set up enterprises to undertake building work and provide housing related services. Once there is a ~~sufficient core~~ of expertise in running businesses developed in this way the process of business generation can become self sustaining. This is a different matter from encouraging construction companies to take on local workers. Whilst that may give them building skills it misses out the vital ingredient of business expertise.

This suggests that the HAT's need to do three things:

i. As far as possible, transfer ownership quickly to tenant based ownership. Wherever possible, this should be done at a knockdown price so that refurbishment can be funded from existing rents rather than HATs refurbishing buildings first;

ii. where this is not possible, HATs should be encouraged to contract out the provision of housing services (e.g. security, routine repairs, caretaking) and for major refurbishment work in contracts that are sufficiently small to enable small businesses to compete;

iii. HATs should be able to provide or facilitate training in business and housing related skill.

Conclusion

Mr Ridley's minute takes too narrow a view of the role of HATs. They should specifically have the objective or

promoting housing related enterprise and employment, to be implemented, amongst other things in the ways suggested above.

Peter Stredder

PETER STREDDER

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PRIME MINISTER

HOUSING ACTION TRUSTS

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I am copying this minute to other members of E(UP) and Sir Robert Armstrong.

NR

21 September 1987

Housing : Pol PT9



RC2.84

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

21 September 1987

Deborah Lamb
Private Secretary to the
Secretary of State for the Environment

Dear Deborah,

DRAFT HOUSING WHITE PAPER

The Chancellor has seen the draft of the White Paper circulated with your letter of 16 September to David Norgrove.

The Chancellor is concerned about the impression given in paragraph 1.20 that subsidies to public sector landlords would to some extent match the effect of mortgage interest relief for owner occupiers. He is further concerned that ambiguity in the wording could lead people to think that the Government believes that all landlords, including those in the private sector, should in some way receive a subsidy to balance mortgage interest tax relief which is available for owner occupiers. E(LF)20th meeting agreed the need to delete the implication in paragraph 1.20 (then 1.19) that subsidy could be justified for the rented sector because costs for owner occupiers were reduced by tax relief. The Chancellor would therefore like to see paragraph 1.20 amended as follows:

> Delete "It might even be above the cost of buying the same property with a mortgage assisted by tax relief".
>
> In the next sentence add "public sector" between "providers of" and "rented housing".
>
> Delete final sentence of paragraph 1.20.

I am copying this to Private Secretaries of Cabinet Ministers and Trevor Woolley.

Yours sincerely,
Cathy Ryding

CATHY RYDING
Assistant Private Secretary

HOUSING

POLICY

PT 9



CONFIDENTIAL

CCBG

SECRETARY OF STATE FOR THE ENVIRONMENT

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My ref:

Your ref:

David Norgrove Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

16 September 1987

Dear David,

At E(LF) on 8 September my Secretary of State was invited to circulate the revised text of the White Paper taking account of discussion at the meeting and any other comments subsequently received. The attached revised draft has been prepared in the light of all these points and arrangements have now been made for it to be sent for printing.

My Secretary of State proposes to publish the White Paper on Tuesday 29 September.

I am copying this to Private Secretaries of Cabinet Ministers and to Trevor Woolley.

Yours sincerely,

Deborah Lamb

DEBORAH LAMB
Private Secretary

100% RECYCLED PAPER



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DRAFT WHITE PAPER

HOUSING: THE GOVERNMENT'S PROPOSALS

CHAPTER 1 PRESENT SITUATION AND FUTURE OBJECTIVES

Introduction

1.1 This White Paper sets out the Government's plans for reforming housing legislation in England and Wales. The Government has four principal aims. First, to reverse the decline of rented housing and to improve its quality; second, to give council tenants the right to transfer to other landlords if they choose to do so; third, to target money more accurately on the most acute problems; and fourth, to continue to encourage the growth of home ownership. Many of these policies require primary legislation.

1.2 This introductory Chapter examines housing trends; identifies those areas in which there has been progress and those where more needs to be done; and sets out the policies which the Government now intends to pursue, in particular to tackle the problems of the rented sector.

1.3 Too much preoccupation since the War with controls in the private rented sector, and mass provision in the public rented sector, has resulted in substantial numbers of rented houses and flats which are badly designed and maintained and which fail to provide decent, secure homes. The return to private sector landlords has been inadequate to persuade them to stay in the market and to keep their property in repair. In the public sector too little attention has been paid to the wishes of tenants, or to their views on how their requirements can best be met; tenants have generally not been allowed to express their choices clearly, and have therefore not always found the kind of accommodation they want. In the worst cases this has led to understandable resentment and a consequential lack of commitment to their homes.

1.4 The Government now intends to tackle these problems. It will reform and deregulate the private rented sector structure, while not affecting existing tenants. In the public sector the emphasis must be on greater consumer choice and more say for tenants. This can be achieved by offering a variety of forms of ownership and management; this will help to break down the monolithic nature of large estates. There should also be physical improvements to the housing and the general environment on those estates; greater involvement of private sector resources; and encouragement of local enterprise and employment so that residents can themselves improve their quality of life. Special emphasis needs to be given to the problems of

housing in big cities; both in the inner areas, and in the largely council-owned estates on the outskirts to which many people were moved from inner areas in the 1950's and 1960's.

Housing Trends

1.5 Housing conditions have improved enormously in this country during this century. The total housing stock has grown faster than the number of households. In England and Wales there are between a half and three quarters of a million more dwellings than households, though there are still imbalances in areas of high demand, notably in London and the South East. The amount of space per person has also increased steadily and is now among the highest in Europe. Almost all houses now have the basic amenities, there are very few remaining slums, and the general condition of the housing stock is good. There are however some major problems of disrepair in the rented sector, both public and private, and particularly acute ones in some urban areas.

1.6 Along with these changes in housing condition, there have been four major changes in patterns of occupation. First, there has been a dramatic increase in owner-occupation, to a point where about two-thirds of houses in England and Wales are now owner-occupied, one of the highest percentages in the world. Second, the private rented sector has declined from about 90% of the total stock in 1914 to only 8% in 1986. Third, there has been a major increase in council housing, from only 10%

of all housing immediately before the War to 24% today. Fourth, housing associations have expanded their role so that the number of their dwellings has increased by 80% since 1976 to a total of nearly half a million.

1.7 The Government welcomes the growth of owner-occupation, which it has strongly encouraged. The right to buy for council tenants has reinforced the trend. Since 1979, over one million public sector dwellings have been sold, in most cases to sitting tenants. Clearly, the majority of people wish to own their own homes. This wish should in the Government's view be supported. Home ownership gives people independence; it gives them a sense of greater personal responsibility; and it helps to spread the Nation's wealth more widely. These are important factors in the creation of a more stable and prosperous society, and they justify the favourable tax treatment accorded to borrowing for house purchase by owner-occupiers.

1.8 More owner-occupation, helped by mortgage interest tax relief, naturally leads to less emphasis on renting. But the rapid decline of the private rented sector has not been caused by the attraction of owner-occupation alone. Rent controls have prevented property owners from getting an adequate return on their investment. On the other hand, people who might have accepted a lower return for a temporary letting have been deterred by laws on security of tenure which would make it impossible to regain possession of their property when necessary. These factors have contributed

to shortages of supply and poor maintenance. Yet, as foreign experience shows, private renting offers a good option for people who need mobility or who do not wish to be tied by ownership of their home. Many thousands of privately owned dwellings might be let, but presently remain off the market. The private sector can offer greater flexibility and responsiveness to market demand. It can provide housing in a way that encourages labour mobility and meets changing needs of individuals and the economy as a whole. Restoring an active private rented sector will allow individuals to take advantage of improved prospects in different parts of the country. It will help progress towards a better match between supply and demand for labour.

1.9 Local authority housing now dominates the rented sector. The growth of municipal housing since the War has certainly been effective in increasing the total housing stock, and in clearing slums. But the system of ownership and management brought with it is often not in the tenant's best long term interest. In some areas the system has provided good quality housing and management. But in many big cities local authority housing operations are so large that they inevitably risk becoming distant and bureaucratic. Insensitive design and bad management have alienated tenants and left housing badly maintained. As the quality of the housing and its environment have declined, so a wide range of social problems have emerged; crime and violence have increased; many people have left for better opportunities elsewhere; local enterprise and

employment have disappeared; and whole communities have slipped into a permanent dependence on the welfare system from which it is extremely difficult for people to escape.

1.10 These problems have often been compounded by indiscriminate subsidies from the rates to hold down rents, which have meant that people who do not need subsidy have become accustomed to it alongside those whose needs are real. Not only are resources wasted as a result, but the independence and self-motivation of communities can in the long term be damaged. The Government's objective is to begin to reverse this process in the worst areas, and to support the independence of local communities where that spirit already exists, by giving more opportunity for tenants to control their own destinies, and by targetting the help that will very often be needed on those who genuinely require it.

1.11 There are other reasons too why it is not healthy for the public sector to dominate provision of rented housing. At the national level, investment in housing has to compete with other public sector spending programmes; and private investment has not been available to supplement limited public sector resources, in order to provide alternative forms of renting on a sufficient scale. At the local level, short term political factors can override efficient and economic management of housing in the long term, leading to unrealistically low rents and wholly inadequate

standards of maintenance. Local authority housing allocation methods can all too easily result in inefficiencies and bureaucracy, producing queueing and lack of choice for the tenant. A more pluralist and more market-oriented system will ensure that housing supply can respond more flexibly to demand, will give the tenant wider choice over his housing, and will allow greater scope for private investment and more effective use of public sector money.

1.12 The housing association movement has shown that a bridge can be provided between the public and private sectors. The movement offers good quality rented accommodation for those in special need or on low incomes. New techniques are being developed which allow private sector resources to supplement public investment, and these will be encouraged and expanded since they open the possibility of more homes being provided for a given amount of public money.

Objectives for the Future

1.13 The Government is adopting four main objectives for future housing policy, and as a basis for forthcoming legislation.

1.14 First, the Government will continue to spread home ownership as widely as possible, through encouraging suitable market conditions, continuing tax relief on mortgage interest, and pressing on with the right to buy. The planning system must continue to

ensure an adequate supply of land for housing. Owners with limited means will be assisted in keeping their property in good condition.

1.15 Second, the Government will put new life into the independent rented sector. The letting of private property will again become an economic proposition. Housing associations will be able to expand their provision for housing at rents which are within their tenants' reach, and the housing association grant system will be restructured so that private finance can be fully employed. Tenants on low incomes will continue to be helped in meeting their rents through housing benefit.

1.16 Third, the Government will encourage local authorities to change and develop their housing role. Provision of housing by local authorities as landlords should gradually be diminished, and alternative forms of tenure and tenant choice should increase. Some authorities will want to move in this direction themselves, and the Government will assist them. Some tenants will want to take the initiative and the Government will give them new rights to do so because this will enable them to improve their housing conditions and to have a say in their own future. Local authorities should increasingly see themselves as enablers who ensure that everyone in their area is adequately housed; but not necessarily by them.

1.17 Fourth, the Government will focus the use of scarce public money more effectively so that tenants are given a better deal. The development of a new financial regime for local housing authorities will encourage more businesslike management of the stock which remains with them. And the development of new Central Government agencies, to be known as Housing Action Trusts (HATs), will build on the success of Urban Development Corporations in focussing national resources directly on particular problem areas. HATs will bring public and (crucially) private sector resources to bear on some of the most intractable areas of mainly local authority housing, so that they can be renovated and their tenants given a better housing environment and a wider choice of landlord.

Involving the Private Sector

1.18 The private sector has a vital part to play in achieving these objectives. It would be both wrong and impracticable simply to use taxes and rates to pay for the provision, renovation and modernisation of public rented housing. There must also be a contribution from higher rents; and there must be a drive for disposal of public sector housing to other landlords, including the private sector and housing associations. This will reduce the pressure on public sector funds; will provide more housing for a given amount of public spending through private sector involvement; and will enable local authorities to move towards a more strategic housing role. More money will become available for

further improvement of the dwindling stock which will remain in the public sector. This has been demonstrated by sales of housing and housing land in the New Towns and by right to buy sales. And the purchase and management of property by the private sector will broaden the choice available to tenants, and give them wider and better housing options.

Rents

1.19 Policies on the lines proposed will inevitably result in a more diverse pattern of rents. In the unsubsidised private sector, rents for new lettings will have to be at the market level, giving landlords a proper return on their investment, if new provision is to be stimulated. In other sectors specifically providing for those on lower incomes, it will be appropriate for rents to be set at less than market levels. However, the stock will not be properly maintained if rent levels fail to cover costs of day-to-day management and maintenance and a reasonable charge for depreciation; and in all sectors rents should cover at least these basic costs.

1.20 In principle, public sector landlords could in addition seek an adequate return on capital before embarking on new investment. But this could mean setting rents at full economic levels which, in some areas, would be beyond the means of many tenants. It might even be above the cost of buying the same property with a mortgage assisted by tax relief. It is inevitable in

these circumstances that there must be some degree of subsidy to the providers of rented housing. Different subsidy systems will be appropriate in different parts of the rented sector.

1.21 Beyond this, the housing benefit system will continue to provide appropriate support to all who need help with their rent. But there will have to be safeguards to ensure that rents are not increased simply because housing benefit is available to pay them.

Inner Cities

1.22 Many of the policies described in this White Paper will enable significant improvements to be made in housing conditions in the inner city areas. They will give more choice to local tenants and residents. They will improve the general environment in those areas and will facilitate the development of new enterprises in presently deprived areas. The policies will in this way contribute towards the major aims of the Government's urban policy, and will be aligned with other developments in that field.

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CHAPTER 2 OWNER-OCCUPATION

2.1 The owner-occupied sector of the housing market has expanded continuously throughout this century. In 1914 there were only 0.8m owner-occupied dwellings. By 1938, 32% of the stock in England and Wales was owner-occupied; by 1979 57%. Since 1979 there has been a further advance to 65% by the end of 1986, representing 13m dwellings.

2.2 Surveys have shown that most households would prefer to own their home rather than rent. So the increase in owner-occupation has been successfully meeting a widely held aspiration. In general owner-occupiers also take a strong interest in maintaining and improving their homes - so the spread of owner-occupation has helped and should continue to help to maintain the condition of the stock, provided owners understand what work needs to be done and can find the resources to finance it.

2.3 For all these reasons the Government will continue to give strong support to the growth of owner-occupation. There are three main ways in which it will provide this support. First it must ensure the smooth operation of the free market in buying, selling and constructing houses. Secondly, it must do what it can to ensure that individual purchasers or prospective purchasers have the opportunities to acquire homes suitable to their needs and their means. Thirdly, it must ensure that owners know where to turn for advice about maintenance and repair and how it might be financed; while, for those unable to find the necessary funds themselves, there needs to be an adequate system of public support.

The Housing Market

2.4 The liberalisation of the financial markets under this Government has encouraged the smooth operation of the housing market to support the process of buying, selling and constructing houses. There is now keen competition between building societies, banks and other financial institutions to provide mortgage finance to purchasers, and the range of choice of terms and services is steadily growing. The Government will continue to encourage the development of the services to housing purchasers provided by this financial market, subject only to the necessary degree of consumer protection.

2.5 The Government has also encouraged liberalisation, competition and improved services in other aspects of house purchase, including conveyancing, estate agency and the processing of searches and registration of title.

2.6 It is a key requirement that the planning system should ensure an adequate and continuing supply of land for housing, including both housing for owner-occupation and for other housing requirements. Much of the land needed can be found by re-using sites that have previously been developed and by making use of vacant land in urban areas. Recent work by the Ordnance Survey has shown that in the last two years nearly half (about 46%) of land developed for housing has been recycled

land of this kind. This process serves both conservation and urban renewal objectives. The Government will continue to encourage full and effective use of land in urban areas, both through the planning system and by financial support for the reclamation of derelict land and for urban regeneration.

2.7 As well as facilitating the re-use of urban land, the planning system must ensure that proper provision is made in development plans for housebuilding in the future. That process of plan review and revision is a continuing one, and must take account of up-to-date information on population growth and household formation and of trends in economic activity and employment. By careful and positive planning these needs can be met without prejudicing other important objectives including the conservation of the countryside and the maintenance of the Green Belts.

Support for Individual Purchasers

2.8 For individual housebuyers mortgage costs can bear heavily in the first few years. Tax relief on interest paid gives substantial help to purchasers and the Government will retain this important assistance.

2.9 Some prospective purchasers are initially unable to afford the full cost of purchasing a house or flat, but would like to make a start on buying. Shared ownership has been developed during the last 8 years to meet this need. Under shared ownership arrangements a purchaser buys a proportion of a house or flat on the usual mortgage basis, but rents the rest from a suitable agency, often a housing association. As his income grows the buyer can increase the proportion he owns until eventually he becomes a full owner. Shared ownership has

proved a useful means for people to get started on home-ownership, and the Government will be encouraging housing associations, the financial institutions and the independent rented sector to develop it further.

Right to Buy

2.10 Many tenants of local authorities want to buy their present homes rather than move out to acquire another home in the open market. The right to buy, introduced in 1980, has proved to be one of the most successful reforms undertaken by the present Government. About a million tenants have already bought their homes under the right to buy or by agreement since April 1979.

2.11 The spread of owner-occupation on council estates is also contributing to the repair and maintenance of the stock, with a recent national survey showing that over four-fifths of buyers had carried out some type of improvement since purchase. As a result estates become more diverse and attractive as places to live.

2.12 Most landlords have administered the right to buy fairly and efficiently. But a few local authorities are slow in dealing with sales. There is already power for the Government to step in and take over sales, but tenants ought to have power to take action themselves if their applications are delayed. The Government therefore proposes that a tenant should have power to serve notice on the landlord calling on it to proceed. If it still fails to do so, and the tenant is not himself to blame for the delay, the tenant would have power to pay the rent to a stakeholder instead of to the landlord. When the sale is finally completed, the rent and the accured

interest would be put towards the purchase price to compensate the tenant for the delay.

2.13 The Government also proposes that the cost-floor rule should be abolished. The rule is that the tenant's right-to-buy discount may not reduce the purchase price below the sum of certain costs incurred since 31 March 1974 in respect of the property. This has discouraged sales and led to complaints from tenants, who feel that it is unfair that they should lose discount because their homes happen to have been built, acquired or improved since 1974.

Repair and Improvement

2.14 Home ownership gives individuals the freedom to alter and improve their homes as they wish and makes a valuable contribution to improving the housing stock and allowing it to meet changing needs. But ownership also carries with it a responsibility to keep the home in good repair. The Government will continue, where needed, to help owners discharge that responsibility, taking account of the assistance available for owners from financial institutions, the building industry, local authorities and the voluntary sector. The Government's proposals take account of the many comments received on the Green Paper "Home Improvement - A New Approach" published in May 1985 (Cmnd 9513).

2.15 Private spending by individual owners already accounts, through income, savings and loans, for the vast majority of resources devoted to improving the private stock. This is as it should be. The skills and resources of the private sector will be important in four main areas:-

i. in improving householders' awareness of what work needs to be done on their property and when;

ii. in providing finance for repair and improvement. The building societies and banks are already developing imaginative loan packages, some especially tailored to those on limited incomes, and the Government will encourage them to make such loans more widely available;

iii. in providing a better quality product. The Government will work with the building industry to improve the standard of repair and improvement work;

iv. in encouraging a vigorous urban renewal programme.

2.16 The Government also wants to see more agency service schemes dedicated to helping people bring about the repairs and improvements they need. It has already legislated to enable registered housing associations to offer such services, and is providing over £3m towards the cost of establishing 56 new schemes in England and Wales. It will legislate further to clarify the powers of local authorities to offer agency services, and to enable the Secretary of State to make financial contributions.

2.17 Where owners are unable to afford the full costs of essential repair and improvement work, the Government accepts that help should be given through a reformed system of <u>improvement grants</u>. Primary

legislation will be needed to target grant to those people who need it, to encourage better take-up of grant, and to lever in private investment.

2.18 The present four types of grant will be simplified. The Government will introduce a single form of mandatory grant available to bring property up to a new standard of fitness. Above this standard, grant assistance will be at the discretion of local authorities. In some areas house prices are rising fast and to avoid windfall profits discretionary grants will be repayable on a sliding scale where properties are sold within the first 3 years and if the selling price exceeds a set figure. Grant entitlement, currently based on rateable values, will be fairly determined by a straightforward test of household resources. It will take into account the cost of the work that is needed, and the household's ability to finance repair and improvement work from income and savings. To simplify administration the new test will be aligned with the reformed income support and housing benefit systems, but its scope will reflect the nature and extent of repair and improvement costs. Grants will continue to be available in certain circumstances to landlords and tenants. Grants will also continue to be available to adapt homes for the benefit of disabled people, and elderly people will be helped with minor repairs and when they need to move in with relatives.

2.19 So far as the Home Insulation Scheme is concerned, proposals have already been announced for targetting grants on those least able to afford the work. However the arrangements under the existing legislation operate on different lines from the home improvement grant system, even though both contribute towards a common objective of improving the housing stock. The Government therefore proposes to bring local

authority powers to pay homes insulation grants within the same broad statutory framework as the reformed home improvement grant system, though local authorities will continue to have discretion to grant aid thermal insulation measures alone. Greater alignment with the home improvement system will make it easier to consider homes insulation measures alongside related improvements and repairs and to pursue consistent policies for improving all aspects of the housing stock including its energy efficiency.

2.20 The Government also intends to encourage local authorities to direct help to the areas of greatest housing need. A single type of statutory renewal area will replace the present General Improvement Areas and Housing Action Areas. Within newly designated areas, local authorities will be encouraged to develop a wider mix of renovation and selective redevelopment. New group repair arrangements are to be introduced to replace the existing enveloping and block repair provisions, and these will be available outside as well as within the new designated areas.

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CHAPTER 3 THE INDEPENDENT RENTED SECTOR: RENTING IN THE PRIVATE SECTOR

3.1 As a result of statutory restrictions, there is now very little private investment in providing new rented housing. And when landlords obtain vacant possession of dwellings at the end of tenancies they often prefer to sell outright into owner-occupation rather than to relet. Owners who do not want to sell their property sometimes keep their houses vacant rather than let to a tenant because of the inadequate returns and the difficulty of regaining possession when they need it. Many of the remaining private landlords also have difficulty in finding sufficient resources to keep their property in good repair.

3.2 Tenants themselves have not benefitted as a whole from the present rent restrictions, since the supply of privately rented housing has shrunk below what is needed, and its condition has deteriorated. And those who do have tenancies find it difficult to move when they need to because of the shortage of supply.

Action Taken So Far

3.3 The Government believes that this is not a satisfactory position. Independent landlords of various kinds using private sector resources ought to have a significant part to play in providing satisfactory rented housing for those who need it. The private sector should be particularly well placed to respond flexibly and swiftly to different local needs and to provide a variety of accommodation readily available in different places for short or long let so as to assist mobility especially for job movers.

3.4 The first essential step to encourage new investment in this sector is to enable private landlords to charge rents on new lettings at a level that will give them a reasonable return.

3.5 The Government has already made some progress in this direction. The Housing Act 1980 created the new concept of "assured tenancies". New and substantially renovated dwellings can now be let by approved landlords at freely negotiated rents. Assured tenants have full security of tenure for the duration of their initial tenancy provided they comply with its terms. At the end of the tenancy the tenant has a right to a new one on terms which may be agreed between the parties, or, if they cannot agree, which can be fixed by the County Court. Any rent fixed by the Court will be at a market level.

3.6 The 1980 Act also created a second new tenure of shorthold lettings. This was introduced to assist those potential landlords who may be prepared to let for a period even at a restricted rent provided they can be absolutely certain of getting their property back at the end of the period. Under the shorthold provisions landlords may let on this basis for a fixed period but either landlord or tenant may apply for the registration of a fair rent.

3.7 Assured tenancies and shorthold have begun to help landlords bring more properties on to the market, but on a limited scale so far.

3.8 The Government has also taken steps to help independent landlords by providing in the Local Government Bill a new power for local authorities to give financial assistance for the provision of independent rented housing. The Government hopes that authorities will use this new power to encourage the development of privately-financed schemes at rents which tenants will be able to afford.

The Government's Proposals

3.9 There are some who argue that the right way to revive the private rental market would be to abolish all controls and leave the determination of rent levels and the degree of security of tenure to be settled contractually between landlord and tenant with no statutory constraint. The Government considers that this would not give sufficient protection to tenants' interests. It is reasonable that, when entering a tenancy, the tenant should expect to have to pay the market rent for the property, with suitable upratings over time. But once a tenant has a market rent tenancy and is occupying a property as his or her home it is right that he or she should have a reasonable degree of security of tenure. This will continue to require some degree of statutory backing.

3.10 The Government accordingly proposes to make progress by building on the two concepts of assured tenancies and of shorthold.

3.11 It proposes that for all new letting from the date new legislation comes into force landlords should be able to choose either:-

i. to let on the assured tenancy basis with rents freely negotiated between landlord and tenant, but security of tenure protected; or

ii. to let on the shorthold basis, with no security beyond the period of the tenancy but with the right for either party to seek registration of an appropriate rent.

3.12 For assured tenancies this proposal is an extension of the present regime. It will now apply to all new lettings. Changes are proposed in order to make assured tenancies suitable as the normal letting regime. Of these three are particularly important. At present landlords who are individuals cannot grant assured tenancies; this restriction will be removed. Second, the present requirement for landlords of assured tenancies to be approved by the Secretary of State will be abolished. The present system of approvals will no longer be practicable. Third, the procedures for the renewal of assured tenancies will be simplified.

3.13 The major change proposed to the shorthold regime is that while the tenant will retain the right to seek registration of a rent at any time, the rent will not be at fair rent level but at market level which takes account of the limited degree of contractual security which the tenant has been offered. Also the minimum length of a shorthold letting will be reduced from a year to 6 months.

3.14 The Government proposes also to remove most of the remaining controls over new lettings by resident landlords.

3.15 The Government does <u>not</u> propose to make any substantial changes in the regime for <u>existing</u> tenancies subject to the Rent Acts. It would not be right to

disturb these existing tenancies, though minor amendments will be made to the succession rules. As and when such tenancies come to an end, landlords will be free to relet on the new basis.

3.16 It is right that landlords should be able to secure a reasonable return on their investment when they let property. It is equally important that tenants should enjoy reasonable security in their own homes. The changes proposed should meet both of these objectives.

3.17 It is important that existing tenants whose Rent Act rights will be preserved should be protected against the minority of landlords who may be prepared to harass them in order to obtain vacant possession and to relet at higher rents. The Government therefore proposes to increase the existing statutory protection by creating a new offence where the landlord harasses the tenant knowing that his actions are likely to lead the tenant to leave his home; this should be easier to enforce than the present offence, which requires proof of intent. The Government is also considering strengthening the civil law to enable tenants who have been evicted illegally or forced out by harassment to claim greater compensation. This would be an important additional deterrent to harassment.

3.18 The housing benefit system will continue to provide help to those who need it. However once rents are deregulated it will be necessary to ensure that landlords cannot increase the rents of benefit recipients to unreasonable levels at the expense of the taxpayer. Local authorities' discretion to restrict benefit on unreasonable rents is already being strengthened as part of the housing benefit changes to take effect in April 1988. The Government proposes in addition to require rent officers to scrutinise the

level of rents which are being met by housing benefit. Where a rent is excessive, the subsidy to the local authority will be restricted to an appropriate market rent for the dwelling in question. Guidance to Rent Officers on the principles for assessing rent levels will be issued by the Secretary of State. The Government is prepared if necessary to place direct limits on housing benefit, rather than on subsidy.

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CHAPTER 4 THE INDEPENDENT RENTED SECTOR: HOUSING ASSOCIATIONS

The Present Position

4.1 Over the past 30 years housing associations have come to play an increasingly important part in the provision of rented housing. They now have 0.5m dwellings, about 3% of the total dwelling stock but about 25% of the independent rented sector.

4.2 There are at present over 2,000 associations registered with the Housing Corporation. They range in size from large organisations with several thousand dwellings to small local bodies with a handful of dwellings. Their objectives and management styles are equally various. They share however the unifying feature of being non-profit making bodies devoted to the provision of rented housing at reasonable rents.

4.3 The Government believes that housing associations have a vitally important part to play in the revival of the independent rented sector. During recent years they have been almost alone in the independent sector in investing in rented housing, and have played a key part in developing new styles of management and new forms of low cost home ownership. It will be important to build on this success and develop it further. Associations should also be given the opportunity to maximise the use of private funds to improve their effectiveness. Their financial regime

will need to be adjusted to take account of deregulation, and to enable the rents they charge on new developments to be within the reach of their tenants.

Further Proposals

4.4 At present housing associations are heavily dependent on the Exchequer for financial support. This is because the "fair rents" determined by the Rent Officer are only sufficient to cover a small part of the costs of new developments or refurbishments. Typically the Exchequer has had to pay for 80-90% of the cost of schemes through Housing Association Grant.

4.5 More recently the Housing Corporation and some individual housing associations have been developing alternative financial possibilities with the encouragement of the Government. These arrangements have involved two key elements. First, schemes are being developed using assured tenancies rather than Rent Act tenancies. Secondly, private sector sources of finance have been sought on an index-linked or low-start basis, with higher repayments in later years when rental income has increased. The combination of these two elements is making it possible to develop viable schemes with more private sector and less public sector involvement. This facilitates improved efficiency and allows public resources to be used more effectively.

4.6 The Government now proposes to develop these arrangements further. For new lettings housing associations will let on an assured tenancy basis or on a shorthold basis in the same way as the private rented sector. This should give them the essential freedom and flexibility in setting their rents to enable them increasingly to secure private sector finance on an index-linked or low-start basis to supplement funding from public sources.

4.7 Housing Association Grant (HAG) will continue to be needed to meet that part of the cost of new developments and refurbishments which cannot be covered by rental income. But the object will be to finance an increasing part of the programme on an index-linked or low-start basis, with a major share of schemes funded by private finance. For schemes funded in this way appropriate levels of grant will be fixed for different parts of the country so that associations will be able to set rents on new developments at levels which are within the reach of the tenants for whom they traditionally provide.

4.8 The housing benefit system will also continue to be available in the Housing Association sector and although it is expected that in general rent levels will be acceptable for housing benefit purposes, they will be subject to the same procedures for controlling subsidy and benefit as in the private rented sector.

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CHAPTER 5 THE ROLE OF LOCAL AUTHORITIES IN HOUSING

Meeting Housing Needs

5.1 In the past building by local authorities was seen as the main way of meeting housing needs. In future, local authorities will continue to be closely concerned with housing needs, and will want to ensure that they take into account all aspects of the demand for housing, including home ownership and renting from private landlords. They will also be responsible for managing their large existing stock of housing in such a way that it makes the maximum contribution to meet the particular housing needs of their areas, especially in the allocation of tenancies. However there will no longer be the same presumption that the local authority itself should take direct action to meet new or incresing demands. The future role of local authorities will essentially be a strategic one identifying housing needs and demands, encouraging innovative methods of provision by other bodies to meet such needs, maximising the use of private finance, and encouraging the new interest in the revival of the independent rented sector. In order to fulfil this strategic role they will have to work closely with housing associations; private landlords; developers; and building societies and other providers of finance. Local authorities are being encouraged to adopt this new approach in preparing their housing investment programmes for 1988/89, and in reviewing and improving the quality of their local housing strategies.

CONFIDENTIAL

Local Authorities as Landlords

5.2 Local authorities are currently landlords of some 4½ million houses and flats, where some 13 million people live. The flow of council tenants buying their homes under the right to buy will continue, and other tenants will be transferring to another landlord. But it is also important to improve conditions for those who continue to live in local authority housing.

5.3 Many housing departments provide a good service to tenants. But, despite the efforts which local authorities and their staff have devoted to improving the quality of management, there are still too many estates where the quality of life is less than satisfactory. It is not what tenants want, and it is not what the original designers of the estates had in mind. Tenants live there not from choice, but because they have nowhere else to live. Many tenants feel that standards of maintenance are inadequate and management is too remote.

5.4 The aim should be to find ways of enabling more balanced and mixed communities to develop. This means improving standards of service and maintenance, often by bringing those responsible for maintenance closer to the individual estate. It means enabling tenants to have a wider choice of tenure and greater control over their own circumstances.

5.5 Some progress is already being made. Many authorities have developed innovative approaches to improve the quality of life and environment on individual estates. Some have developed new forms of decentralised management, and tenant involvement in management decisions. Some have worked with the urban programme and other central agencies and initiatives to improve the local environment. The DOE Estate Action

team, with the Department's Regional Offices, has also been working with local authorities since 1985 to tackle the problems of individual estates and to target available resources more accurately towards them. They work on a number of basic principles, many derived from the work of the Priority Estates Project over a number of years. These include the need to tailor solutions to the needs of a particular estate; the value of bringing management and maintenance services on to the estate itself; and the essential need to win tenants' confidence at all stages in proposals for change and improvement. The work of Estate Action has also highlighted the importance of involving the private sector wherever possible in refurbishment both for sale and rent so that private sector resources are involved as well as public sector ones.

5.6 All these initiatives have shown what can be achieved with council stock. But further action is required. There needs to be a more businesslike framework for local authorities' housing activities, which will demonstrate more clearly the efficiency and effectiveness of their methods of operation. There needs to be more scope for council tenants to exercise choice by opting for a different landlord. Sometimes there will be scope for a single-minded body, on the lines of the highly successful Urban Development Corporations, to be given the job of improving particularly difficult areas of predominantly council housing, with a view to subsequent disposal either for owner-occupation or tenancy. The rest of this Chapter, and Chapter 6, describe the Government's proposals in this area in more detail.

CONFIDENTIAL

A New Financial Regime

5.7 The provision and management of council housing is a massive and costly task. It needs to be carried out in a businesslike way, so that homes can be managed and maintained to a reasonable standard, and rents kept at an affordable level, without excessive and indiscriminate subsidies. A more businesslike financial framework will also make it easier to assess the true nature of the task facing each council, and their success in tackling it. This will help to ensure that resources can be targetted on those areas with the greatest needs. A consultation paper will be issued in due course setting out the government's proposals for a new financial regime which will reinforce the present statutory distinction between the provision of housing and other local authority functions and replace the existing housing revenue acounts by arrangements which are more in accord with modern accounting practice.

5.8 The new financial regime will also cover capital receipts and capital expenditure. Because of the continuing success of Right to Buy, more than half the capital expenditure on housing by local authorities is now funded from capital receipts. The new system will need to reflect this fact and fit in with the controls on other local authority capital spending. The Government plans to issue a separate consultation paper on the future of these controls around the turn of the year.

Tenants' Option to Transfer

5.9 The Government intends to introduce arrangements to allow council tenants to choose to transfer to other landlords. This will offer a remedy for tenants who receive a poor service from their council. Exposing

councils to healthy competition should also contribute to a better general standard of services even for tenants who do not transfer.

5.10 Tenants will be able to decide, if they wish to transfer, to set the process in hand at a time of their own choosing. Virtually all tenants who transfer will take with them their right to buy.

5.11 Tenants who want to transfer will need to identify a new landlord willing to take them on. Landlords will be formally approved on the basis of their suitability and viability. There will be arrangements to put tenants and prospective new landlords in touch. Many approved landlords will be established housing associations, but some will be commercial landlords. In other cases, tenants may if they wish be able to take control of their own homes by forming a cooperative with their neighbours. The legislation will give prospective landlords, once they have a tenant's agreement, the right to negotiate the transfer of the tenant's home on legally-defined terms.

5.12 The position in relation to blocks of maisonettes and flats will be complex, and special arrangements of various kinds will be needed which are not required in the case of houses. The position generally, however, will be that the freehold of a block will be transferred where a majority of tenants want to do so. But although some tenants in a block may want a change of landlord, their neighbours may want to stay with the council. The legislation will therefore provide that, even where a block transfers to a new landlord, tenants can, if they wish, continue in their homes as tenants of the council.

CHAPTER 6 HOUSING ACTION TRUSTS

6.1 The previous Chapter set out a number of proposals for giving wider choice to local authority tenants, and for improving the circumstances of run-down council estates. Experience shows that arrangements of these kinds will often be effective, particularly on a relatively small scale. But there are some areas of local authority housing, particularly in some of the inner urban areas, where social problems and housing disrepair are so serious that in the Government's view more direct action - involving both public and private sectors - is needed to obtain improvements over a reasonable timescale. Unless major improvements can be made in the fabric and general environment of these areas it is unlikely that policies such as the right to transfer to other landlords would be successful there.

The Urban Development Corporation Model

6.2 There are several models to follow. The work of Estate Action, and the improvements that can be made by designation of General Improvement Areas and Housing Action Areas, show that the detailed problems of bad housing are not insoluble given the will and the mechanisms. On a larger scale, the Urban Development Corporations in London and on Merseyside have shown the results that a body devoted to developing a run-down area can achieve. They have brought a new drive to their task and results have been achieved that the local authorities have not been able to achieve by themselves in the past.

6.3 The Urban Development Corporation model is not wholly appropriate as it stands for the housing field. The housing problem being tackled concerns densely developed urban areas rather than largely derelict industrial areas in need of regeneration (though the two may overlap). Different kinds of expertise and people will be needed. Different statutory powers could well be necessary. The model needs adapting. The Government therefore proposes to take powers to establish analogous bodies in designated areas to take over responsibility for local authority housing, renovate it, and pass it on to different forms of management and ownership including housing associations, tenant cooperatives and approved private landlords. The new bodies, to be known as Housing Action Trusts (HATs), will provide scope for tenants in these areas to have a diversity of landlords and ownerships. And as well as improving housing conditions, they will act as enablers and facilitators for provision of other community needs such as shops, workshops and advice centres, and for encouraging local enterprise.

Operation of Housing Action Trusts

6.4 The HATs will have a limited lifespan. Their remit will be to secure the improvement of the stock transferred to them in their area and then hand it over to other owners and managers. Through this process they will make use of both public and private sector resources; they will assist in the Government's aim of diversifying forms of management and ownership, in conjunction with other policies such as rent deregulation and right to transfer; and disposals by HATs will generate extra funds which can be used elsewhere.

6.5 It is too early to say how many HATs will initially be created, which areas they will tackle, or how large those areas might be. But the physical quality of the stock, the effectiveness of its management and the general environment of the area will be among the relevant considerations. Each HAT, like an Urban Development Corporation, will consist of a Chairman and members appointed by the Secretary of State; they will include people with direct experience of the area.

6.6 It will be desirable for each HAT to carry out its task in close conjunction with local authorities concerned, and with the tenants of the properties transferred to it. The maximum cooperation is needed if problems are to be successfully tackled. Tenants' interests will be deeply involved, for example in respect of refurbishment programmes and eventual disposal of property by the HAT.

Future Programme

6.7 The Government sees the concept of HATs as a vital part of their overall housing policy, and as a means of single-mindedly tackling some of the most difficult areas of local authority housing. Once statutory powers are available, the first HATs will be set up and the experience gained from them, and particularly their success in applying public and private sector resources to the improvement of housing and the widening of choice for local authority tenants, will provide the basis for further decisions.

CONFIDENTIAL

CHAPTER 7 EFFECTS OF THE NEW POLICIES: NEXT STEPS

Financial Effects

7.1 The policies and proposals described in this White Paper have important implications for the balance of public and private expenditure on housing. In general the proposals open up opportunities for more private sector involvement which will allow whatever funds are agreed for public sector provision to be targetted more effectively. So the overall quality and quantity of the housing stock should improve.

7.2 On the capital side, the reform of the private rented sector and the new financial arrangements for housing associations will draw in additional resources from private investment. Receipts from right to buy sales will continue to be substantial. Some public sector capital expenditure will be required, in the early years, for investment in HAT areas. Improved targetting achieved through the new financial regime for local authority housing, the new housing association grants and the new home improvement grants, as well as through increased involvement of the private sector generally, will all help to ensure that public sector capital investment is concentrated where it is most needed.

7.3 On the current side, the aim is to move away from the present indiscriminate subsidies to tenants through rate fund contributions, exchequer subsidies, revenue deficit grant to housing associations, and unjustifiably low rents, and rely instead on the assistance with housing costs available through housing benefit to those tenants who really need help. At the same time an appropriate level of exchequer subsidy will continue to be available to housing associations, and to local

authorities with particularly high costs who would not otherwise be able to balance their accounts on the basis of affordable rents.

7.4 The overall effect of these different factors cannot be precisely estimated at this stage. In general however, the greater involvement of private sector investment, and the greater efficiency and consumer responsiveness it will bring, should mean that a better housing output will be achieved than under the current system for any given level of public expenditure. The overall level of public expenditure on housing will of course be determined annually, as at present, through the Public Expenditure Survey machinery.

7.5 Previous Chapters of this White Paper have indicated for each of the main elements of the policy the objectives which the Government is seeking to achieve. As proposals are further developed in detail an analytical framework appropriate to the Government's Financial Management Initiative will be developed to gather data and to monitor performance.

Summary of Proposals

7.6 The previous Chapters of this White Paper have set out the main strands of housing policy which the Government intends to pursue over the next few years, and the legislative proposals which flow from them. Legislation will need to cover:-

a. Deregulation of new lettings by private landlords.

b. Deregulation of housing association new lettings, and revision of the financial regime for housing associations to facilitate greater use of private sector resources.

c. A new local authority financial regime.

d. A right for local authority tenants to transfer to other landlords.

e. Powers to set up Housing Action Trusts in order to renovate run-down local authority housing.

f. A simplified and better targetted system of improvement and repair grants.

g. Detailed changes to the right to buy.

7.7 Legislation on many of these topics will be included in a Bill to be considered by Parliament in the present Session. But some will require further work before legislation is brought forward. In particular, the proposed reform of the local authority housing financial regime described in Chapter 5, will need to await a later Session and in the meantime a consultation paper will be published outlining these proposals in more detail. On other topics too, there is a need to produce more detailed explanatory material. Some of this has already been issued and the remainder will be issued shortly.

7.8 The Government sees these policies as ensuring greater private sector involvement in housing investment; wider choice for the consumer and the tenant; and enabling resources to be aimed effectively at housing problems both in the inner cities and elsewhere. They are therefore vital elements in the Government's programme.

PRIME MINISTER

You will see from the attached Policy Unit note that they have a 45 minute video of discussion groups with council tenants. Would you like me to arrange for you to see this one Friday morning when you have a weekly meeting with Brian Griffiths?

ANDY BEARPARK

14 September 1987

CONFIDENTIAL

DG2CFJ

CBG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

14 September 1987

Dear Deborah.

TENANTS' RIGHT TO TRANSFER

The Prime Minister has seen your Secretary of State's letter of 4 September to the Secretary of State for Wales about the arrangements for preserving tenants' right to buy when they exercise their right to transfer to a new landlord.

The Prime Minister has two comments. First, she understands that it has been calculated that under existing market conditions the tenant's purchase price would generally be above the price the landlord had paid to take on a property with a sitting tenant. However, market relationships could change, particularly if liberalisation of the private rented sector and a move away from "fair rents" increases the potential return and therefore the capital value of tenanted property - and thus the price the landlord would pay to take over the property. It would be helpful if the Department could explore the sensitivity of the research to possible changes in market conditions, and suggest whether conditions could be included in the contract transferring a property from the local authority to a private landlord to guard against this possibility.

Second, it would be worth considering whether a landlord might be deterred from investing in a property after purchase if the tenant retains a statutory right to buy. Since the price paid by the tenant will be calculated as a discount from market value, even if the landlord's investment were fully reflected in the market price (which in some circumstances it may not be), the landlord would not recoup the full amount that he had invested in the property through improvements. Does this need special arrangements?

The Prime Minister is otherwise content, subject to the views of colleagues.

I am copying this letter to the Private Secretaries to the members of E(LF), Jon Shortridge (Welsh Office) and Trevor Woolley (Cabinet Office).

Yours sincerely,
David Norgrove.

David Norgrove

Miss Deborah Lamb,
Department of the Environment.

CONFIDENTIAL

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From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

14th September 1987

CONFIDENTIAL

Dear Secretary of State

Following the discussion at E(LF) last week, I know that you are now considering which matters should be dealt with in each of the two proposed Housing Bills.

I am extremely concerned about the suggestion that our proposals for reform of the renovation grant system might be deferred until the second Bill. It is already over two years since we published our Green Paper in May 1985, and even if we use the first Bill it will at the end of the day have taken almost four years for our proposed changes to come into effect. In my view it would be quite wrong to let this drag on for yet a further year by waiting until the second Bill.

It is particularly relevant that we have - rightly in my view - laid a good deal of stress on the need for better targetting of the large sums devoted to renovation grants. In these circumstances there can be no excuse for not acting at the first reasonable opportunity to put matters right.

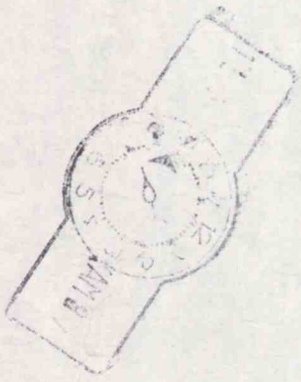
It will be obvious to everyone that we shall have had plenty of time, in the period since the publication of the Green Paper, to take account of the responses it attracted and prepare our proposals. If we do not now bring them forward in the first Bill, I fear we shall make ourselves look extremely silly, and give our opponents a splendid stick to beat us with.

I am sending copies of the letter to the Prime Minister, other E(LF) colleagues and to Sir Robert Armstrong.

Yours sincerely

Approved by the Secretary of State
and signed in his absence

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment



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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

NRBRM

14 September 1987

Dear Secretary of State

with DCW

Thank you for copying to me your letter of 4 September to Peter Walker.

I would like to comment on the second part of your letter on the arrangements for right to transfer (RTT) for tenants in flats. In Scotland, our different land tenure arrangements mean that the position is much less complicated. In Scotland, the title to flats in a tenement usually contains well established conditions as to what items are held in common and as to how common repairs are to be financed. I can therefore extend to tenants of flats in Scotland RTT arrangements similar to those applying to tenants of individual houses; and I propose to do so. I would not therefore want to make any comment on the arrangements you propose for England and Wales, except to say that we can justify any differences of approach north and south of the border by reference to the different land tenure arrangements.

I also have a number of concerns about the right to buy at discount (RTB) arrangements you propose after RTT.

During the passage of what became the Housing (Scotland) Act 1986, we too had significant problems in the Lords from charitable housing association interests when we sought to extend the RTB to tenants of housing associations. You recognised that seeking to give any tenant exercising his RTT to a charitable housing association a retained right to buy would reopen discussions on such issues. If we adopt the line you suggest, I think we must contemplate the possibility of the Lords sucessfully pressing the opposition to our ending up with legislation which is internally inconsistent - with RTB applying in some right to transfer areas and not in others with no very obvious rationale in the boundary line.

Secondly, you now propose that new tenants of housing associations should not have the right to buy. This will create two classes of future housing association tenants: those who become housing association tenants by exercising their right to transfer (and, under your proposals, retain their RTB) and those who become housing association tenants

directly (who will not have a RTB). Such an arrangement could well prove difficult to defend and cause confusion among housing association tenants. Also, we in Scotland have recently given housing association tenants the right to buy; to remove this right so soon after its introduction could cause dismay among those who supported our efforts - against substantial opposition - to give housing association tenants this right.

I do, of course, accept that RTB could prove a disincentive to attracting private sector investment into new housing association developments and, in particular, that, if the RTB is preserved for such tenants, the removal of the "cost-floor rule" could mean that a tenant could acquire his home at up to 70% discount with the price which the housing association would receive being less than the associated loan which financed the building or refurbishment of the property.

These arguments apply equally to housing associations which become the landlord or former local authority tenants under the right to transfer. Although, in this latter case, the terms of transfer should reflect the retention of RTB by the tenants and, as you point out, it is almost certain that the price which the landlord would receive for an RTB sale would, even after discount, exceed the transfer price he paid, I wonder whether this position would hold after the new landlord has made further investment in the property. There would be a disincentive, I fear, for the landlord to carry out the improvements if he had to sell immediately thereafter at a price which only partly reflected the value added by the improvements.

I hope that I have illustrated that we are in danger of pursuing policies which could be criticised as being internally inconsistent. I think that we should consider whether we can rationalise the proposals so that RTB should continue statutorily to apply after the right to transfer only where other (ie non-right to transfer) new tenants of the receiving landlord are also eligible for the RTB. If such an approach were adopted, I feel that it would have significant attractions of consistency and simplicity. If we preserve the RTB for transferring tenants, as you propose, this approach would point to preserving the right to buy for all future housing association tenants. A possible variant is to preserve the RTB only for tenants of future projects which have been funded totally by public expenditure. The alternative is to adhere to your proposal to remove the RTB for new tenants of housing associations and not preserve it for tenants exercising their right to transfer. This could be presented as tenants having a choice of RTB and a right to transfer but not both, unless he exercises his right to transfer to another landlord whose new tenants enjoy the RTB. My initial preference is preserve the RTB for transferring tenants and for new housing association tenants.

I note that you propose to consult Peter Walker, John Major and me further on terms of transfer under the tenants' right to buy. I have two comments at this stage. From the disposing local authority's point of view, the net result of an RTT transaction will be the same, price apart, as for an RTB disposal; ie the local authority will lose one property and one tenant. There would seem some attraction, in logic, in the consideration the local authority receives for the sold property being the same in both cases, and there would also be substantial attractions in the simplicity of approach which having like valuation approaches to properties in both circumstances would bring about. However, I accept that the RTT price on a willing vendor basis would be likely in most

circumstances to be less than the RTB price, and therefore would make the property more attractive to receiving landlords. I therefore would not wish to press this further suggestion if John Major, Peter Walker and you feel we are now committed to the "willing vendor" approach; but you may wish to consider whether this could be a fall-back position on price if we are severely pressed to reconsider our proposals during our Bills' passage through Parliament.

Also can we look again at what would happen if we do follow the "willing vendor" price approach and some valuations turn out to be negative. You envisaged that in these circumstances the local authority would be obliged to pay the receiving landlord a "dowry" of the amount by which the price is negative, and that this project would assist the landlord to take early steps to improve the property. In theory, this makes good sense; but in practice I foresee very considerable difficulties. Many if not all local authorities will be extremely unwilling, to put it no higher, to pay anybody to take stock away from them. We may therefore face cases where a local authority refuses to sell (which could for example in Scotland involve me in taking default action) or, having signed missives, refuses to pay over the amount of the dowry (when the new landlord could be expected to take action in the Courts). I do not think we should risk Court action of this type disrupting the implementation of the RTT policy.

I suggest that an alternative approach would be for the "dowry" to be paid from central Government funds, probably in the Scottish case through "Scottish Homes". Payments made could be offset against, for example, the capital allocations of the local authorities concerned. Perhaps our officials could pursue this point further.

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

Yours sincerely,

Andy Rifkind

MALCOLM RIFKIND
Approved by Secretary of State
and issued in his absence

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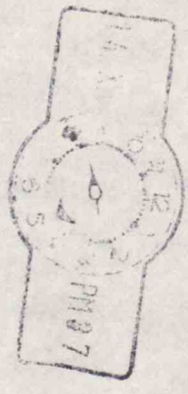
Housing policy pt 9.



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From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

11th September 1987

CONFIDENTIAL

NBPM.

TENANTS' RIGHT TO TRANSFER

Thank you for your letter of 4 September.

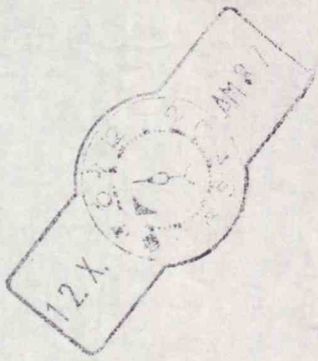
I agree that the right to buy should be preserved as a statutory, rather than a contractual, right. In practice, however, the effect of a statutory right to buy on the willingness of new landlords to enter the right to transfer market will depend to a very large extent on the valuation basis which is under discussion between your officials and mine. So while I can agree to the principle of a statutory right to buy, this must be subject to satisfactory resolution between us of the outstanding points of operational detail.

I think the proposal to require charitable housing associations to operate right to buy in this context will meet fierce opposition in the Lords and we run a significant risk of defeat. But I am content to go with you on this if you believe it worthwhile.

As for flats, I am content with all your proposals. No doubt your officials will involve mine in the further work on the preferred option for individual tenants of flats.

I am copying this to the Prime Minister, other members of E(LF) and Sir Robert Armstrong.

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment



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The Rt Hon Nicholas Ridley MP
Secretary of State for Environment
2 Marsham Street
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NBR.

7 September 1987

Dear Nick

TENANTS' RIGHT TO TRANSFER

I have seen your letter of 4 September to Peter Walker and am content with that you propose. WITH DCN

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

Yours

NORMAN FOWLER

HOUSING
POLICY
PT 9



008/4208

CC B5

CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

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

NRBRN.

11 September 1987

Dear Secretary of State,

TENANTS' RIGHT TO TRANSFER

FILE WITH ON

Thank you for copying to me your letter of 4 September to Peter Walker.

I am content for you to aim to preserve the right to buy for tenants who wished to transfer landlords. Your proposals on minority transfers of tenants in blocks of flats clearly raise significant practical difficulties but I do not object to the approach you wish to take. I note that you will be consulting further on this in the light of the work you are commissioning from officials.

You mention that you plan further consultations on the terms of transfer under the new tenants' right and on the stimulation of interest among tenants and landlords. I should be grateful if you would include me in that process of consultation.

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

Yours sincerely,

Jim Ruth

PP JOHN MAJOR

(Approved by the Chief Secretary and signed in his absence).

HOUSING POLICY PTG



Prime Minister

Agree to make the points at X and Y and Z?

11/9.

MR NORGROVE

10 September 1987

TENANTS RIGHT TO TRANSFER

Mr Ridley's note on the proposals for handling tenants' right to buy appear reasonable in principle; but there are a few issues which need to be explored in a little more depth before being content that we have a fully workable solution.

Maintaining the statutory right to buy

Maintaining a statutory right to buy is clearly desirable if we want to maximise the ultimate transfer of property into private ownership. However, the assertion that a new landlord would not be deterred from taking on a tenant by this provision still appears to be open to question.

- DOE economists have calculated empirically that under existing market conditions the tenants' purchase price would generally be above the price the landlord had paid to take on a property with a sitting tenant. However, market relationships could change, particularly if liberalisation of the private rented sector and a move away from "fair rents" increased the potential return and therefore capital value of tenanted property - and thus the takeover price charged the landlord. It would be helpful if DOE explored the sensitivity of their current empirical finding to potential changes in market conditions, and suggested what retrospective steps might be taken if the relationship changed.

These steps would have to be part of the transfer contract.

- DOE also need to consider whether a landlord might be deterred from investing in a property after purchase if the tenant retains a statutory right to buy. Since the tenant purchase price is calculated as a discount off market value, even if the investment was fully reflected

in the market price (which it often may not be immediately) the landlord would not recoup the full amount that he had put into the property in improvements. Does this need special arrangements?

1 7 2

Charitable Housing Associations

I agree with the logic that right to buy should apply to charitable housing associations as much as to any other landlord. Assuming DOE is right that landlords will not lose financially from a tenant's right to buy, one can then argue that no charitable funds are being diverted to subsidise private purchases.

Tenant Co-operatives

The only reason for excluding tenant co-operatives is the fact that tenants who choose to join a co-operative have specifically chosen a co-operative tenancy arrangement - where they have no equity participation - as opposed to other forms of tenant control, such as a co-ownership agreement. It would seem perverse to force a right to buy on tenants who have chosen to exclude it, although we might hope that most tenants will in fact prefer an association which gives them equity benefits.

Transfer of flats

Mr Ridley's proposal that ownership of the block should remain with the local authority until a majority of tenants opt for private ownership seems the most sensible way to proceed. There is no point in giving landlords a minority stake in a complex holding company if local authorities remain in effective control.

NRB

NORMAN BLACKWELL

HOUSING: Policy Pt 9

CONFIDENTIAL

CaBG

PRIVY COUNCIL OFFICE
WHITEHALL. LONDON SW1A 2AT

9 September 1987

NBPM.

Dear Nicholas.

TENANTS' RIGHT TO TRANSFER

I have seen a copy of your letter of 4 September to Peter Walker about tenants' right to transfer.

I have to say that in view of the history of earlier similar proposals it is very hard to believe that the House of Lords will pass that part of your proposals dealing with charitable housing associations. But if you and colleagues consider its inclusion essential I am, of course, willing to try.

I am sending a copy of this letter to the Prime Minister, the members of E(LF) and Sir Robert Armstrong.

Yours

The Rt Hon Nicholas Ridley MP

CONFIDENTIAL

Housing Policy PT 9



DCA CEG

cc BG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

7 September 1987

Dear Jill,

SURPLUS CENTRAL GOVERNMENT DWELLINGS AND LAND

The Prime Minister has seen your letter to me of 2 September about the position on surplus central government land and dwellings, and has noted that you will be providing a fuller report once the Public Expenditure Survey has been completed.

I am copying this letter to Geoffrey Podger (DHSS), Ian Andrews (Ministry of Defence), William Fittall (Home Office), Helen Ghosh (Department of the Environment) and to Sir Robin Ibbs.

Yours,

David.

(D.R. NORGROVE)

Ms. Jill Rutter,
Chief Secretary's Office.

8(a)

cc B/cp

PRIME MINISTER 7 September 1987

E(LF): HOUSING PROPOSALS

The draft White Paper seems to be a reasonable, if still uninspired, statement of Government proposals. However, there are still some omissions from what should be a broad policy statement. In addition, a decision is needed now on what can be said about the future of the HAT programme.

Draft White Paper

Although DoE is under severe pressure to curtail its immediate legislative requirements in this session's Bill, the White Paper - if it is to be effective - should go beyond this in setting out a fairly complete statement of the Government's housing policy and the intentions. Two areas related to public housing and opt-out provisions appear to be omitted:

1 Establishing an agency to promote and assist with opt-out provisions. Many commentators have already noted that achieving an effective mechanism to help tenants take advantage of opt-out provisions is perhaps the most crucial factor in whether or not the legislation achieves any rapid impact. This is particularly true for the option of tenant co-operatives, where no third party landlord is involved as a catalyst. Various proposals are under consideration - including establishing a unit within the Housing Corporation - but no decision has yet been reached on how to proceed. However, if the White Paper fails to say anything on this matter it is sure to provoke criticism as a glaring inadequacy.

Agency

We recommend:

(i) the White Paper recognises the need to promote opt-out opportunities and provide help to tenants, noting that the Government is considering alternative arrangements to achieve this.

(ii) Mr Ridley be asked to report as soon as possible on how this should be achieved.

2 The development of estates and encouragement of enterprise in areas not covered by HATS. In those estates covered by HATS there will be both powers and funding to achieve significant redesign of the estate, where necessary, and promote the development of enterprise. However, while HATs will provide valuable models of what can be achieved, they will never cover more than a small sample of estates directly. Yet such "estate wide" development is crucial on many estates to realise the full social and cultural benefits of breaking the traditional local authority housing format:

- reducing crime and improving social pride and individual self respect through Alice Coleman type redesign (eg creating proper roads through the estate providing front gardens and fences, etc);

- redeveloping common areas and social facilities, perhaps in conjunction with private developers;

- converting existing property, or building new starter units to house small business enterprises.

Development of this kind necessarily involves the whole estate, and will not be achieved directly by opt-out proposals aimed at the transfer of iindividual houses and

flat units - which can in fact complicate matters by creating a variety of landlords on the same estate.

Discussions have taken place with DoE on ways to help such redevelopment to take place outside of HATs. No firm proposals have yet been agreed, but it is likely to require:

(i) A structure to enable tenants and landlords to set up a co-ordinating body on an estate - an 'estate trust' - to draw up and execute plans.

(ii) granting of greater planning freedom to such bodies, including encouragement of mixed use planning. (They might be designated Simplified Planning Zones)

(iii) the redirection of housing grants and urban programme money to provide grants for which tenant groups outside of HATs could apply to assist with redevelopment.

While it is clearly too late to include any such new ideas in the current Bill, if we are agreed in principle that this is desirable it would be helpful to include some words in the White Paper to flag our intention of moving in this direction. This would then help to put direct Central Government intervention through HATs into the right perspective - as a special measure aimed at the worst estates, rather than a general displacement of local responsibility and initiative.

We recommend you ask Mr Ridley to include an appropriate passage in the White Paper and work up proposals for subsequent legislation.

Other drafting points are as follows:

(i) The White Paper talks extensively about housing associations, but makes little mention of tenant controlled housing co-operatives, co-ownership schemes. It would be helpful to include some comment on development and benefits of such schemes in the introductory chapter, and to feature them more prominently in the discussion of opt-out policy.

(ii) The statement of objectives does not explicitly state the Government's desire to give tenants more personal responsibility and control over their housing conditions. This surely is a primary reason for wanting to remove local authorities' virtual monopoly of the rented sector.

(iii) On opt-out arrangements, it is not helpful to state (para 5.12) that "the position in relation to blocks and maisonettes and flats will be complex". This simply invites commentators to suggest that we have not worked it through. We should simply state that different arrangements will be needed, and go on to describe them.

Housing Action Trusts

Mr Ridley argues that, if HATs are to be seen as an important part of the Government's approach, we should announce now our intention now of developing a rolling programme. The Treasury argue that we should commit to no more than the initial tranche (5-10 estates) and monitor their effectiveness before proceeding further.

Clearly you will not want to pre-empt future PES negotiations. However, Mr Ridley is right to want to

portray this as a worthwhile policy development rather than a few isolated experiments. Without committing the Government to any specific rolling programme, we suggest that the statement merely states that the Government would intend to bring forward additional proposals in subsequent years, but the scale and timing will depend on our initial experience. This allows Mr Ridley to continue developing proposals for the next phase, while leaving options open.

Norman Blackwell

NORMAN BLACKWELL

(standing in for Peter Stredder)



CC(87)10

P 02820

PRIME MINISTER

Prime Minister
This is Brian Mawhinney's last brief. DER 7/9.

HOUSING POLICY: OUTSTANDING ISSUES AND PROPOSAL FOR A WHITE PAPER

[E(LF)(87)37&38]

DECISIONS

Mr Ridley's first paper (E(LF)(87)38) reports on progress since the Sub-Committee's last meeting in resolving outstanding issues with colleagues. It also seeks E(LF)'s agreement to the two following proposals on Housing Action Trusts (HATs):

i. That there should be a rolling programme of HATs, with new designations in successive years, rather than a one-off experiment which would be evaluated before any further designations were made (as the Treasury would prefer).

ii. That the initial tranche of designations should establish a reasonably substantial number of HATs (eg between five and ten) rather than just two or three (as the Treasury initially proposed).

In addition, this paper will be the occasion for

iii. Discussion of progress with drafting the Bill, and decisions on priorities for topics to be included in it.

2. Mr Ridley's second paper (E(LF)(87)37) seeks agreement to publish in the second half of September a White Paper setting out all the Government's Housing Policy proposals.

BACKGROUND

3. The Sub-Committee met three times during July (E(LF)13th, 15th and 18th Meetings) to agree the details of those housing policy proposals to be included in this Session's Housing Bill, provided

provisions can be drafted by mid-November. Subject to a few minor outstanding points, agreement was reached on the following areas -

i. Owner-occupied sector. Changes in the arrangements for home improvement grants, designed to target them more closely on those who need assistance, and a number of detailed changes in the right to buy (RTB) provisions.

ii. Private rented sector. Provisions to revitalise the private rented sector, through new forms of assured and shorthold tenancies, at rents well above existing fair rent levels.

iii. Housing associations. Changes in the basis on which housing association grant (HAG) is paid, designed to encourage more private sector investment in housing association development.

iv. Right to transfer. A new right for local authority tenants to transfer to a new landlord in the housing association or private rented sectors.

vi. Housing benefit. New arrangements to contain housing benefit costs arising from the new forms of tenure in the private rented sector and from the proposals on housing associations, and to prevent the Exchequer being exploited by landlords and local authorities.

4. The one remaining proposal for which provisions are to be taken in this Session's Housing Bill but on which the Sub-Committee has not yet reached detailed agreement is the establishment of Housing Action Trusts (HATs). This was discussed very briefly at E(LF) on 7 July (E(LF)13th Meeting Item 3), but there were substantial differences between Mr Ridley and Treasury Ministers over the number of HATs which should be set up initially, their size, and the speed with which the initiative should be pursued. E(LF) agreed that, since the Government was committed in its

election manifesto at least to a pilot programme of HATs, the necessary enabling provisions should be drafted for inclusion in the Housing Bill, but without prejudice to the use that would be made of them. Mr Ridley and the Chief Secretary were asked to discuss the issues further, with a view to bringing agreed proposals back to the Sub-Committee.

5. The possibility of publishing a White Paper on housing policy was first raised by Mr Ridley on 7 July (E(LF)13th Meeting Item 1). At that point you were not convinced that a White Paper was desirable: in particular you felt that resources within Mr Ridley's Department should be concentrated on preparing the various proposals for legislation, rather than on drafting a policy statement. However E(LF) returned to this on 28 July (E(LF)-(87)18th Meeting Item 1). You again took the view that the priority was to get the outstanding issues sorted out as soon as possible, but you agreed that Mr Ridley should prepare the text of a statement of the housing policy proposals, which might be published in the second half of September before the Party Conference. In fact Mr Ridley circulated a first draft on 5 August. Your Private Secretary's letter of 10 August agreed that officials should consider this text, but reflected your own comment that the introductory chapter should be made crisper and more attractive to give a clearer idea of the benefits to tenants of more choice and diversity of rented housing. You also felt that the language of the document was rather stilted.

MAIN ISSUES

6. You will probably want to consider first the main outstanding issues, principally on HATs, and then turn to Mr Ridley's draft White Paper.

Housing Action Trusts

7. DOE and the Treasury have reached agreement on a substantial number of technical issues about which the Chief Secretary was concerned during the earlier discussions. They include -

1. The objectives of the policy.

2. The criteria for selecting HATs.

3. Arrangements to monitor HATs and assess the success of the policy.

4. The financial and management regime for HATs.

5. The likely public expenditure implications, including the likely pattern of expenditure and receipts over the life of a HAT.

Their conclusions on these detailed issues are set out in the paper attached to Mr Ridley's Memorandum.

8. The main outstanding issues concern the size of the HAT programme, and the nature of the commitments which should be entered into before the first tranche of HATs can be evaluated. But here too some progress has been made. The Chief Secretary is now prepared to accept Mr Ridley's case that the initial tranche of designations should number between five and ten rather than the two or three which Treasury officials had been advocating. But he does not accept that the Government should commit itself to a rolling programme of further designations before the success of the first HATs can be assessed. He is therefore likely to argue that no further HATs should be designated after the initial tranche, without a specific decision to that effect from E(LF). If Mr Ridley wanted to put forward such a proposal at some future date, the Chief Secretary would expect him at that stage to bring forward

whatever evidence was available about the success of the existing HATs.

9. These issues about the size and nature of the HAT initiative are of course closely bound up with PES decisions. Mr Ridley has made the following bid to support a rolling programme of 15 to 30 HAT designations over the survey period -

1988/89	1989/90	1990/91
£20m	£100m	£150m

The Chief Secretary will not, of course, be able to accept a bid of this size, although the Treasury are not at present able to say what figures might prove acceptable. Dropping the concept of a rolling programme would reduce the figures in years two and three of the survey period.

10. You will not wish to say anything in E(LF) which might prejudice the PES discussions. But you may wish to endorse the proposal for an initial tranche of between five and ten HATs, since both Mr Ridley and the Chief Secretary can accept that. You will also want to decide whether there is any validity in Mr Ridley's argument that a rolling programme is necessary in view of the long lead times in getting HATs under way and the political need to make quick progress. Your manifesto said that HATs would be established "...initially as a pilot scheme...". Even if you now agreed to a rolling programme, it seems inconceivable that Mr Ridley could designate a second tranch of HATs without consulting the Sub-Committee. In view of that, you may feel that there is no need to agree now to a rolling programme beyond the initial tranche and that Mr Ridley should be asked to come back to the Sub-Committee if he wishes to designate further HATs.

Other Outstanding Issues

11. Apart from HATs, the only major outstanding issue is the proposal to ring-fence local authorities' housing accounts to produce unified housing accounts. This proposal is closely linked with the need for a new local authority capital control system, on which Mr Ridley will be bringing forward proposals later in the Autumn. He does not seek any decisions now on these issues, which are for legislation next session. His answer to questions about this aspect of the Government's housing policies will be to promise a consultation paper in due course.

12. A number of other minor issues are still being resolved in discussion between Departments. They include the implications for the courts of the proposed new offence of harassment of tenants by landlords, and subsidiary issues relating to the new right for council tenants to transfer to a new landlord. You will probably not wish to spend time on these issues at E(LF) but simply urge the Ministers are concerned to reach agreement as soon as possible.

Possible statement on housing policy

The draft is still very stilted. DRW. 4/9.

13. Mr Ridley wishes to issue a White Paper on the Government's proposals, both to provide a definitive text for interested parties, and as the basis for discussions with them. His draft takes account of your comments on the earlier version, and also points made in discussion between officials. He now seeks the agreement of the Sub-Committee to proceed to publication, subject of course to further points of substance and drafting. However the Chief Secretary may want to argue against publishing a White Paper at this stage, on the grounds that it could reduce the Government's room for manoeuvre over issues like HATs and unified housing account.

14. You will want to weigh up these conflicting arguments for and against publication. A considerable amount of work has clearly been done on the text, substantial progress has also been made in

sorting out the various issues left unresolved at the end of July. Some problems remain in presenting the proposal on unified housing accounts, where substantial decisions have yet to be taken, but they can probably be side-stepped by stressing the link with a new capital control system and promising a further paper in due course. You may therefore feel that the way is now clear to make a policy statement, before the Party Conference at the beginning of October. You will however wish to decide whether it should be a White Paper or a less formal document.

PROGRESS IN DRAFTING THE HOUSING BILL

15. You are aware from recent correspondence that Mr Ridley is dissatisfied with the rate of progress in drafting the Housing Bill (his letter of 25 August). When Cabinet considered the legislative programme on 9 July (CC(87)23:5) the Lord President said that he was bound to recommend that any housing provisions which could not be drafted by mid-November should be deferred to a Bill in the next Session. Cabinet agreed that the Housing Bill (along with Bills on Education and the Abolition of Domestic Rates) should be introduced by the end of the second week of November at the latest, and that the contents of the Housing Bill might need to be adjusted to meet that requirement. Your Private Secretary's letter of 26 August to the Lord President's Private Secretary supported Mr Ridley's request for extra drafting resources, and suggested that recently retired draftsmen might be co-opted. The Lord President has undertaken to consider with the First Parliamentary Counsel whether further resources can be deployed on the Housing Bill. But he has also suggested that Mr Ridley should attach an order of priority to the topics of the Bill which remain to be drafted, in case some of them do indeed need to be stood over to the Bill in the 1988/89 Session.

16. Parliamentary Counsel are clearly under heavy pressure to draft the substantial volume of difficult and potentially controversial legislation in the Government's programme for the present Session. Every effort will of course be made to draft

provisions to deal with all the housing policy initiatives which are candidates for the present Session. Nevertheless, you will wish to keep the management of the whole Session's business in mind: there has to be a point beyond which scarce drafting resources cannot be diverted to the Housing Bill without an adverse effect on other key Bills which also need to be introduced as early as possible in November. You will wish to ask the Lord President to give his assessment of the position if Mr Ridley does raise this issue. If it appears that there is a real possibility of some of the items in paragraph 3 above not being ready for this Session's Bill, you may wish to support the Lord President in asking Mr Ridley to suggest the priorities. The absolutely essential core of this Session's Bill must be the private rented sector, housing benefit and HATs.

VIEWS OF OTHER MINISTERS

17. The views of the Chief Secretary are recorded above. I understand that the other Ministers principally concerned - the Secretary of State for Social Services and the Secretary of State for Wales - are broadly content both with progress on outstanding issues and with the draft of the White Paper. (The HAT issue is not a major concern for other Ministers - the Secretary of State for Wales does not wish to establish any HATs in Wales, and the Secretary of State for Scotland sees his proposal to establish Scottish Homes as the Scottish alternative to HATs.)

HANDLING

18. You will first want to ask the Environment Secretary to introduce his paper on progress on outstanding issues. The Chief Secretary, Treasury will wish to comment on HATs in particular. The Secretaries of State for Wales and for Social Services and other Ministers will also wish to comment. If Mr Ridley raises the question of progress in drafting the Housing Bill, you will no doubt wish to ask the Lord President to comment.

19. You will then want to ask the Environment Secretary to introduce his proposed White Paper on Housing Policy. The Chief Secretary, Treasury and other Ministers will no doubt wish to comment both on the arguments for and against publication and on the text of the documents.

J B UNWIN

4 September 1987
Cabinet Office

CONFIDENTIAL

CCBS

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon Peter Walker MBE MP
Welsh Office
Gwydyr House
Whitehall
LONDON
SW1

4 September 1987

PH comments please
9/9.

Dear Secretary of State,

TENANTS' RIGHT TO TRANSFER

At E(LE)15th attached on 14 July, I was invited to consider further, in consultation with the Secretaries of State for Wales and Scotland and the Chief Secretary, Treasury the precise arrangements for preserving tenants' right to buy (RTB) when they exercise their right to transfer to a new landlord. It was also decided at that meeting to leave open the possibility of transfer by tenants of flats and maisonettes even if a majority in their block wished to remain council tenants. I now seek colleagues' agreement to how I propose to proceed on these matters.

On RTB, I think it right that transferring tenants should, wherever possible, continue to have a right to buy at a discount. I would prefer that right if possible to be statutory, rather than a less certain contractual right. The policy that we have developed in the context of other transfers to independent landlords, and on the basis of which we legislated in section 8 of the Housing and Planning Act 986, has been to preserve the RTB statutorily. The only reason in the present case to allow a tenant to surrender his right contractually would be if it made it practicable for a new landlord to take him on and so made the difference between his being able, and not being able, to transfer.

But in principle there is no reason why a tenant's possession of a statutory RTB sould deter a landlord from taking him on. This is because, in almost all cases, given currently foreseeable market conditions, the price which the landlord would receive for a RTB sale would, even after discount, exceed the transfer price he paid based on market value subject to tenancy. I conclude that we should preserve transferring tenants' RTB stautorily, rather than contractually.

I was invited to consider also whether the RTB should apply on transfer to a charitable housing association. This could be justified on the argument that public, and not charitable, funds had originally been used to provide their dwellings; and that there was thus no logical reason for them to lose their RTB. But charitable associations might nevertheless see sales at a discount as incompatible with their charitable objectives.

This is 100% recycled paper

We need to balance the interests of these tenants against the fact that preservation of their RTB would be contentious, especially in the Lords. Not dissimilar legislative proposals in 1983 to bring publicly-financed housing of charitable associations within the RTB provoked major opposition. And preservation of the RTB might reduce the stock of potential landlords by discouraging some charitable associations from taking part. I believe that we should nevertheless seek to preserve the RTB for those transferring to charitable housing associations, while accepting that to do so may be controversial.

Similar arguments apply, but less controversially, to transfers to housing associations which have never previously received public support, another category of landlord excluded from the main RTB. I propose that tenants transferring to such associations should also have their right statutorily preserved. The arguments for a third category of general exemptions from the RTB, however - co-operative housing associations - are rather different, depending less on the original means of providing the dwelling than on the communal nature of the tenure itself. I propose that we should retain this exemption from the RTB for tenants transferring under their new right.

On flats, my proposal that the transfer of a block should require a majority vote of the tenants, and that the local authority would be granted a long lease on any flat whose tenant did not wish to transfer, was agreed. A note on the basis on which I have put the drafting of Instructions to Counsel in hand is annexed.

This leaves the question of arrangements to allow tenants in a minority who wish to transfer to do so. We shall have to decide what we want to do along these lines before finalising the drafting of the Bill: I do not believe that secondary legislation could bear the weight of deciding both the circumstances in which local authorities might be required to grant leases on individual flats, and the terms on which they would be required to do so.

One possibility raised in discussion at E(LF) was requiring the local authority to set up a management company for any block where tenants wished to transfer and to sell long leases to the new minority landlord. I have considered this proposal, but do not favour it. So elaborate an arrangement would be expensive and difficult for authorities and offer poor value-for-money when small numbers (or individual tenants) were involved. If the authority retained an influence over the management company commensurate with their holding in it, the arrangement would leave them in de facto control of the management of the block. Arrangements to exclude or curtail their influence over the management of the block would be difficult to justify on financial management grounds. In either case, the arrangement would be likely to be unattractive to prospective landlords.

This is 100% recycled paper

CONFIDENTIAL

A preferable option would be to empower each tenant individually to invite a new landlord to buy a leasehold interest from the local authority in respect of his flat. This could begin the process of takeover. And it would face the council with a leaseholder experienced and articulate enough to exert a powerful influence on management and maintenance practices in the block. The more leases an intermediate landlord of this kind had, the more influential the position it would be in. This would go some way towards the effect that colleagues had in mind in suggesting a management company without the extreme complication of providing for the control and conduct of the company as an intermediary between the council and the new landlord. It would also come closer to the truly individual right which we would ideally wish to achieve.

Although such an arrangement would be clearly preferable to the management company route, it must be doubtful, however, whether many individual tenants, or small minority groups, would be able to attract landlords who would be prepared to take on the very exposed position of a minority intermediate landlord. And many landlords will not in any event want to participate unless they have effective control of common parts and common services. I propose to ask officials to work up the preferred option further, but I intend to consider again whether to go ahead when we have better information, from talking to potential landlords, about what its true practice usefuness would be. I will consult colleagues again at that stage on whether or not to proceed: in the meantime, this will leave Parliamentary Counsel free to press on with drafting more central parts of this and the other housing policies for the Bill.

I shall shortly be consulting you, Malcolm Rifkind and John MacGregor further on terms of transfer under the tenant's right to transfer; and on the action I propose to stimulate interest among both tenants and landlords. Meanwhile, I should be grateful to know by 11 September if colleagues are content for me to proceed in relation to flats and to the RTB as I propose in this letter, which I am copying to the Prime Minister, other members of E(LF) and Sir Robert Armstrong.

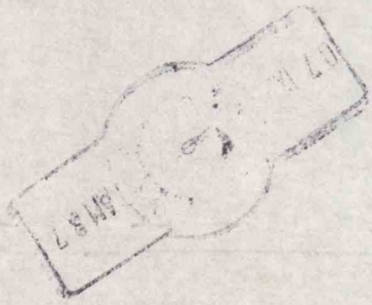
Yours sincerely,

Deborah Lamb

pp NICHOLAS RIDLEY
(approved by the Secretary of State in draft & signed in his absence)

This is 100% recycled paper

Housing Policy PT9.



ANNEX

RIGHT TO TRANSFER: MAJORITY SCHEME FOR FLATS

The key elements of the proposed scheme are:

i) that when transfer is proposed, the presumption is that it should go ahead unless a majority of qualifying tenants vote against it. Doing it this way round prevents the possibility that the apathy of a few tenants could be the deciding factor against a transfer. It is also consistent with the statutory constraints imposed by the Housing & Planning Act 1986 on the circumstances in which the Secretary of state can give his consents to a voluntary disposal of tenanted housing;

ii) the "constituency" for determining the majority should dwellings occupied by secure tenants, those occupied by holders of long leases from the council, and commercial premises in the block. It should exclude empties and flats occupied by non-secure tenants, licensees and squatters. There should be one vote per unit. Consideration is being given to a minimum qualifying period for voting rights: this could avoid "packing" of a block by a hostile local authority;

iii) the proposed new landlord, not the council, should carry out the assessment of opinion: the council should be under a duty to provide access and information as needed, but should have a right to see the "raw" results;

iv) where there is sufficient support and the new landlord is willing to complete, the freehold would transfer to it subject to:

a)	empties and squatters	- vacant possession
b)	occupied by secure tenants and commercial tenants not opposed to transfer	- tenancies from the new landlord

c)	occupied by secure tenants and commercial tenants who who remained opposed to transfer	- long leases back to the local authority
d)	occupied by non-secure tenants and licensees	- short leases back to the local authority
e)	leased to another landlord	- lease back to the local authority for a term to cover the lease.

If practical, we propose to require the local authority to offer their long and short leases back to the freeholder when the sitting tenant who opted to remain a council tenant left.



CC BG

CC 8/9/87

TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

3 September 1987

Prime Minister

This makes some useful points.

DHW
4/9.

HOUSING ACTION TRUSTS

1 I am afraid that I will be unable to attend the meeting of E(LF) next week at which Nicholas Ridley's memorandum E(LF)(87)38 on Housing Action Trusts (HATS) will be discussed because I have to attend an important European meeting on American reactions to Airbus launch aid.

2 I would have wished to support Nicholas in his arguments about the political need to make quick progress and establish now a rolling programme of the kind that he describes in paragraph 10 of his memorandum. I also welcome the recognition in para 25 of the supporting paper that we need to get better targetting of Government resources in inner cities. HATS are a good way of achieving this.

999-49

3 However I am concerned about the criteria for selecting HATs which are set out in the Appendix to the memorandum. The admirable objectives set out in the Appendix for the HATS will not be achieved unless the improvements in housing conditions are achieved as far as possible alongside other activities to encourage employability and enterprise amongst the inhabitants of the housing and to attract private capital into business in the locality. You are soon going to chair another meeting of E(UP) at which we will be discussing ways in which we might concentrate all the best elements of the Government's inner city policies in selected districts where they might be expected to make substantial and visible progress. The preliminary sift of potential areas for HATS has been conducted on a very broad brush basis, as the memorandum concedes, using housing and property market criteria. I believe that it is very important that before the 20 or so best candidates are submitted to consultants for more detailed appraisal, there should be a further broad brush assessment to ensure that a high proportion of the locations coincide with, or are alongside, Government Task Force Areas, Enterprise Zones, City Technology Colleges, and other relevant instruments of Government policy. We will get much better value for money from all our inner city policies if they support and complement each other in selected places on the ground.

999-49

4 I therefore propose that the selection of best candidates for further investigation should be subject to collective decision, say at E(UP), in just the same way that the selection of the site of UDCs, City Action Teams, Enterprise Zones and Inner City Task Forces were the subject of full collective discussion when they were first established.

5 I would also be keen to see HATs deploying their considerable financial muscle consciously to improve and develop local building firms and the employment chances of residents on the chosen estates. HATS are intended by Nicholas to have a pump-priming role and the encouragement of local firms and employment could easily be added to the objectives in para 6 and the output measures in para 23. Since it is intended to evaluate HATS individually rather than globally, fine-tuning the performance criteria required of each Trust should be relatively simple.

6 I am copying this to other members of E(LF), E(UP) and Sir Robert Armstrong.

KENNETH CLARKE

999-49



002/4212

Treasury Chambers, Parliament Street, SW1P 3AG

Prime Minister 2

David Norgrove Esq
Private Secretary
10 Downing Street
London
SW1A 2AA

3/9.

2 September 1987

Dear David,

SURPLUS CENTRAL GOVERNMENT DWELLINGS AND LAND

Your letter of 16 March asked for the Chief Secretary's assessment of the position on surplus land and dwellings in the light of the interim reports which he had requested from other Ministers. All Ministers with significant holdings of surplus land and dwellings have now provided interim reports; several of these were delayed by the Election.

Their replies show that most Ministers are taking an active interest in the position. Progress made by departments varies. The Home Office had already made good progress in setting targets for the various units etc which come under its control and has put in hand arrangements to augment its knowledge of provincial police forces housing. Other Ministers have proposed detailed reviews - for example in the case of DOE sponsored bodies as part of the process of examining their corporate plans. In some cases doubts have been expressed about the value of targets.

The Chief Secretary will be pressing those Ministers on the need for firm targets during the course of the Survey and will, where necessary, be pursuing this with them in bilateral correspondence.

The Treasury will arrange for departments to provide details of their plans for disposal targets during the course of the Survey as they are firmed up, so that we can provide the Prime Minister with a fuller report once the Survey has been completed.

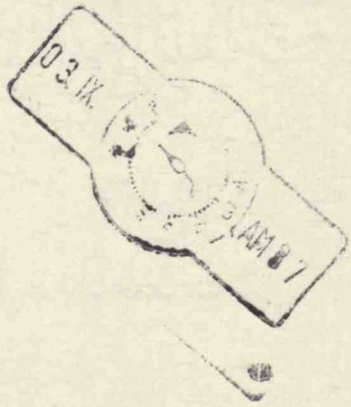
I am copying this letter to Geoffrey Podger (DHSS), Ian Andrews (MOD), William Fittall(HO), Helen Ghosh (DOE) and to Sir Robin Ibbs.

Yours,

Jill.

JILL RUTTER
Private Secretary

Housing Policy PT9



PRIME MINISTER

This convoluted letter from DTI reports that the company which has provided insurance for repairs on pre-fabricated reinforced concrete houses, on the basis of which some people who have bought their council houses were able to get their mortgages, may be about to have its authorisation withdrawn by the DTI. This would be done to protect policy-holders and the Department would try to find new insurance and deal with the position of those already signed up.

Sara Howe

PP DAVID NORGROVE

1 September 1987

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

30 August 1987

Dear Nicholas

HOUSING BILL

In your letter of 25 August you raised the question of securing extra drafting resources for this Bill to increase the amount that would be ready for introduction by mid-November, which is the date dictated by the pressure of the programme as a whole.

I naturally join in the wish expressed by you and the Prime Minister that as much as possible of the Bill should be ready by the mid-November date. I think I must say, however, that I do not quite share your memory that we have agreed that no topic should be excluded from the Bill since that would damage its coherence. I have refreshed my recollection of the Cabinet discussion of this at the meeting on 9 July, and I see that it was then made plain that if we were to meet the mid-November date it might be necessary to stand over some topics to the Bill planned for next Session (for which, of course, you now have advance drafting authority).

I would certainly be disturbed to be told that work was coming to a complete halt on the Bill for the next month, but I do not think that this is the case. My understanding is that, although no new draft clauses will be produced, Second Parliamentary Counsel's assistant will be taking the work ahead throughout the period. But I shall certainly be very glad to consider with the First Parliamentary Counsel whether there is any way in which further resources could be deployed at this short notice and, in particular, I shall enquire about the Prime Minister's suggestion about co-opting retired draftsmen.

No doubt the next meeting of E(LF) will be the time when we take stock of all this. I think it would be useful if, before then,

The Rt Hon Nicholas Ridley MP

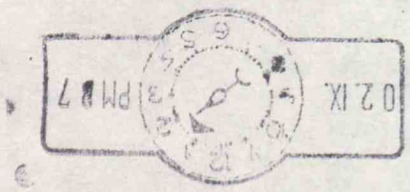
HOUSING POLICY PTG.

you were able to attach an order of priority to the topics of the Bill that remain to be drafted, in case some of them do indeed need to be stood over to next Session's Bill in the way we discussed in July.

I am sending copies of this letter to the Prime Minister, Peter Walker, Sir Robert Armstrong and First Parliamentary Counsel.

Yours

Geoffrey



CONFIDENTIAL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

26 August 1987

Dear Mike

HOUSING BILL

The Prime Minister has seen the letter from the Secretary of State for the Environment to the Lord President dated 25 August. She is concerned that everything possible should be done to ensure that the Housing Bill can continue to make progress in September, so that a full Bill can be introduced in mid-November. She warmly supports the Secretary of State's request for more drafting resources and has asked whether it would be possible if a recently retired draftsman might return for a brief period.

I am copying this letter to Jon Shortridge (Welsh Office), Trevor Woolley (Cabinet Office) and Brian Shillito (Office of the First Parliamentary Counsel).

Yours ever

Mark Addison

Mark Addison

Mike Eland, Esq.,
Lord President's Office.

CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

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

CC BG

CONFIDENTIAL

The Rt Hon the Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

25 August 1987

Prime Minister.

To be aware of the drafting difficulty over Housing Bill which DoE are trying to resolve.
MBW 25/8

Dear Lord President

HOUSING BILL

When we discussed the content of the Housing Bill, you agreed that it could include all measures on which policy approval had been obtained and Clauses drafted, provided the Bill was introduced on time in mid-November. Any measures not ready by then would have to be deferred to the Bill proposed for the next Session.

On that basis, I am on course to include all the elements of the housing policy package (other than housing accounts) in this Session's Bill. These are HATs, private rented sector, housing associations, right to transfer, improvement policy and right to buy. My Department has been working flat out on ironing out policy problems on all these topics, and on drafting Instructions to Counsel. A substantial amount of Instructions has already been sent to Counsel, with more in the pipeline.

I gather however that a problem has arisen over drafting capacity. Second Parliamentary Counsel, who is working on the Bill, will be on leave for virtually the whole of September. He has been concentrating on HATs and the private rented sector, and Clauses have been drafted on these already. However he does not expect to have made any headway before he goes on leave on the material available to him relating to housing associations, right to transfer, improvement policy or right to buy. And while he is away the Bill will be in the hands of an assistant who, I understand, will not have the capability to make any substantive drafting progress.

It is vital that there should be a fully coherent package of measures in this Session's Housing Bill. It is also vital that the Bill be introduced in mid-November. We have agreed that no topics should be excluded from the Bill: that would damage its coherence. I know that all concerned are doing their very best,

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and I am pleased with progress so far, but it seems that we do face a genuine capacity problem: preparation of Instructions is on schedule but it seems likely that drafting will not be. I wonder therefore whether it would be possible for you to use your good offices to get some increase in the drafting resources available for this crucial Bill, so that progress can continue to be made in September? I do recognise the problems of priorities for Parliamentary Counsel's Office, but it seems wrong to allow progress to come to a complete halt for the whole of September when the right pair of hands could make all the difference.

I am copying this letter to the Prime Minister, Peter Walker, Sir Robert Armstrong and First Parliamentary Counsel.

Deborah Lamb (- approved by the Secretary of State & signed in his absence)

pp NICHOLAS RIDLEY

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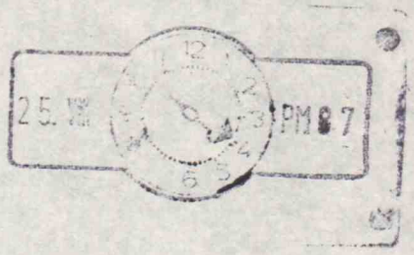
25. IX
PM 8 7

CCBG

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

n6pm

My ref:

Your ref:

The Rt Hon John MacGregor OBE MP
Ministry of Agriculture, Fisheries
and Food
Whitehall Place
LONDON
SW1

17 August 1987

Dear John

DEREGULATION OF NEW LETTINGS IN THE PRIVATE SECTOR

Thank you for your letter of 7 August.

I am grateful for your broad agreement that we should assimilate, so far as future tenancies are concerned, the Rent (Agriculture) Act regime with the regime which will apply to private tenancies generally. Since the fair rent system is to be wound down after deregulation, and could not really be maintained just for this class of tenancy, I think that the proposals outlined in my letter of 17 July are the only practicable solution.

Our officials have, of course, already discussed the proposals in some detail and instructions to Counsel are in preparation. I hope that we shall be able to put these to your Department for clearance quite soon and I hope you will agree when you see the full picture that we have taken proper account of the special position of agriculture workers. We are, of course, working to a very tight timetable to get the Housing Bill ready for introduction soon after Parliament returns and we shall therefore need to instruct Counsel on this as soon as possible.

We do not at present envisage consulting separately about our proposals for the private rented sector. But I do envisage issuing in the autumn a fairly detailed paper explaining the proposals as a whole. This certainly ought to go to the relevant agricultural interests and if they have views on the details, we shall be ready to consider them.

Copies of this letter go to E(LF) members and to Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

100% RECYCLED PAPER

HOUSING — Policy. Pt 9.



R/13/4

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

PS/Secretary of State for Trade and Industry

14 August 1987

David Norgrove Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1

MR NORGROVE - on return

FB 17/8

Dear David,

AA MUTUAL INTERNATIONAL INSURANCE COMPANY LIMITED ("AAMI") EQUINE AND LIVESTOCK COMPANY LIMITED ("ELICO")

AAMI is a small insurance company underwriting motor vehicle insurance (9,000 motorists and 2,000 London taxis) and insurance for repairs on pre-fabricated reinforced concrete (PRC) houses, mainly ex-public authority housing sold to tenants.

The need for AAMI's PRC houses insurance arose from the terms of the Housing Defects Act 1984 under which a grant for repair of PRC houses is made on condition that the repaired house is mortgageable. Building societies would only lend on PRC properties if a suitable warranty of repair was available. The National House Builders Council ("NHBC"), although an authorised insurer, was reluctant to bear any such risk. AAMI were the only company in the insurance market prepared to offer terms at an acceptable premium. As a result single premium 10 year policies were issued at AAMI, the premium being met primarily by local authorities though a 90 per cent grant to the owners, with local authorities, in turn, receiving 90 per cent Exchequer contribution.

We understand that nearly 1,000 owners have repairs finished and signed up with AAMI; about 1,200 are in the pipeline : some 23,000 owners in total are eligible under the Housing Defects legislation of which over half might get grants for repair (the rest will be repurchased at 95 per cent of default free value). We understand that so far no claims have been made on AAMI.

DW5BUT

AAMI's erstwhile South Africa parent (AA Mutual) went into liquidation in May 1986 and AAMI had difficulties in securing the release of funds from the SA liquidator; although eventually released these were not sufficient to guarantee AAMI's future. Although AAMI assured the Department that it had its required solvency margin, ie. the required excess of assets over liabilities, when statutory returns for 1985 were received it became apparent that this was not the case. A plan was requested from AAMI for the restoration of a sound financial position.

To construct such a plan AAMI looked for a buyer who would inject fresh capital into the company. Eventually an agreement was reached with Equalia (an Italian group which already acted as Italian agent for a subsidiary of AAMI) with a competion date of 30 June and a possible extension to 31 July; under this the new owners would inject £5.2m new capital into the business - enabling the company to cover its solvency margin.

The 31 July deadline came and went; the agreement was extended first to 7 August and then 14 August, but appears no nearer completion; indeed the Italian would-be purchaser seem regularly to devise new ways of raising the cash, none of which comes to fruition.

The Department has tried its best to nurse the saving of AAMI, mainly because of the PRC houses insurance, and the difficulty of finding new insurance cover for such houses. The company is, however, continuing to take on new business and its liabilities are thus increasing. Whilst it has told the Department it is solvent in Insolvency Act terms, it does not have the additional buttress of assets over liabilities to meet insurance legislation requirements.

AAMI told the Department it would apply for voluntary withdrawal of its authorisation on 10 August but did not do so in the light of fresh hope on its part that the Italian money would be forthcoming. It is now taking steps to cease taking on new motor business, to put the taxi business on "hold" and to try to withdraw from the PRC houses contract.

In order to protect policyholders, the Department has now issued a formal notice to AAMI that it proposes to withdraw its authorisation. Such action is not publicised by the Department until such time as when and if an adverse decision is made. This will take place unless satisfactory representations are made in the next month; these may take the form of firm evidence that the proposed (or another) sale is going through and that the necessary financial injection will be made but this is, of course, presently

DW5BUT

a matter for conjecture. In the meantime, the assets of the company are being put in trust to safeguard the interests of policy holders.

We understand that discussions are taking place between NHBC and AAMI about the future of the PRC insurance scheme. It is possible that the NHBC will be able to hold the current cases in the pipeline until the position clarifies : a new deal is being set up with a consortium of insurance companies to take on new business and, it is hoped, the pipeline cases, and, hopefully, the existing contracts too.

If it is necessary to take away AAMI's authorisation, the Department will strive for an orderly run-off of business. There may be a hiatus, or word may get out about AAMI's difficulties. Criticism may ensue - the important point being that if their repairs are not covered by a warranty, the owners do not own mortgageable, and therefore, saleable, property.

The Department's action is confidential between it and the company; the news may not break and criticism may not be forthcoming. If it does, points to bear in mind are:-

(a) the decision to stop taking on new business was a decision by the company in the light of its financial position;

(b) the Department's action is designed to protect policyholders; and is being taken now whilst it appears the company is solvent;

(c) efforts are being made to find new insurance for the PRC scheme and to deal with the position of those already signed up.

I am copying this letter to Robin Young and Helen Ghosh at DoE.

Yours,
Paul

PAUL STEEPLES
Private Secretary

DW5BUT

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 August 1987

STATEMENT OF THE GOVERNMENT'S HOUSING POLICY PROPOSALS

The Prime Minister has seen your Secretary of State's minute of 5 August covering a draft statement on housing. She is content for officials to work on the text with a view to submitting a draft to E(LF) in September.

She believes the introductory chapter should be made crisper and more attractive to give a clearer idea of the benefits to tenants of more choice and diversity in rented housing. She thinks the language at present is stilted.

I am copying this letter to the Private Secretaries to other members of E(LF), Steven Wood (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office) and Trevor Woolley (Cabinet Office).

(M.E. ADDISON)

Robin Young, Esq.,
Department of the Environment.

MR ADDISON

7 August 1987

Some time ago the Prime Minister saw the summary Gallup report on attitudes towards unemployment on council estates, and expressed interest in seeing a video of the discussion groups with council tenants. With the election intervening, this never came about.

However, I have now organised to get a new, shorter, summary video from Gallup and would recommend finding 45 minutes in the Prime Minister's diary after the holidays (ie early September) to go through it. It captures in very revealing form some of the basic welfare dependency issues:

- Perceptions of high unemployment levels, and the assumption that it is not worth bothering to look for a job.

- Candid reflections that they recognise that low paid jobs are available, but are unwilling to take them because of the loss in benefit.

- Discussions about easy money to be made in the black economy.

- Reflections on the closed nature of the council estate community.

I would suggest fixing a time when Brian Griffiths and I could join the Prime Minister to mull over some of the policy implications. There might also be a case for asking John Moore and Norman Fowler to join if they were free, although it may be easier to make arrangements for them to see it separately if they are interested.

NRB.

NORMAN BLACKWELL

PRIME MINISTER 7 August 1987

STATEMENT OF THE GOVERNMENT'S HOUSING POLICY PROPOSALS

attached

Mr Ridley has minuted you seeking authority to prepare a policy statement on housing, for consideration by E(LF) in September. He is not seeking agreement on publication at this stage but asking to prepare a document so that Ministers have something concrete to consider when they discuss the principal of publication.

Clearly, a draft needs to be prepared now if E(LF) is to be in a position to agree on publication in September. The aim should be to produce a crisp and attractive statement of the overall philosophy underlying the new housing policy proposals with sufficient detail to make it clear that the Government has thought through the implementation of the main proposals in the Manifesto.

The draft attached to Mr Ridley's minute needs some work before it meets these objectives. Specifically:

- The introductory chapter needs to be made sharper and given more vision. At present it is rather stilted.

(My word before I read the memo!)

- Some of the subsequent chapters, for example that on housing associations and on opting out, need to include more detail. At present they give the impression that the Government has thought things through less than is in fact the case.

- A particular emphasis lacking in the present draft is the importance of encouraging tenants to form co-operatives to take over their estates and the motivating effect this can have.

- Finally, the draft goes too wide in two respects. First, it refers to the reform of local authority housing finance although no decisions have been taken and changes are not to be made in the 1987-88 Housing Bill. Similarly, there is a reference to an 'extended programme' of Housing Action Trusts when at present Ministers have agreed only to a pilot programme.

Conclusion

We agree that Mr Ridley should prepare a draft overall policy statement on housing without commitment at this stage to it ever being published. The aim should be to produce an attractive statement of the overall policy and sufficient detail to indicate how the Government intends to implement the proposals in the Manifesto.

The present draft needs some work to achieve this objective. In particular the introductory chapter should be made crisper and more attractive with a clearer vision of the benefits to tenants of more choice and diversity in rented housing. It should highlight the benefits of tenants forming co-operatives to take over their housing. More detail needs to be included in some of the subsequent chapters where decisions have already been taken. But the White Paper should not refer, except briefly, to the reform of local authority housing finance where decisions have yet to be taken or to an extended programme of Housing Action Trusts.

Peter Stredder

PETER STREDDER

LCCBG

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

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

7 August 1987

Dear Nicholas, pap.

DEREGULATION OF NEW LETTINGS IN THE PRIVATE RENTED SECTOR

Thank you for your letter of 17 July 1987 outlining your proposals for the treatment of agricultural workers in the context of rent deregulation for new lettings.

I welcome your intention to retain the current provisions for rehousing in cases of agricultural need, and the associated Agricultural Dwelling House Advisory Committees. As you say, this system is generally accepted by the industry and has largely overcome the sensitive problems relating to tied cottages prior to the enactment of the Rent (Agriculture) Act 1976. I am sure that neither farmers nor workers would wish to return to the old confrontational system whereby a court order was necessary to obtain possession of a cottage for an incoming worker. This combined with your plans to maintain the status quo for existing tenancies should do much to defuse the inevitable criticism which will arise particularly from the TGWU.

On this basis, I can agree to the broad outline of the proposals. However, before giving my unqualified agreement I feel we should see considerably more detail in order to assess fully the implications for the agricultural sector. The 1976 Act does differ from the Rent Acts in a number of small but important ways, devised to take account of the particular circumstances of agriculture. In this area I am particularly concerned about grounds for repossession (other than via the ADHAC procedures), successor tenancies and the two-year qualifying period for full security of tenure. I would wish to be clear on how such aspects are to be incorporated into the new regime, if necessary, before making any final decisions.

/I suggest that...

I suggest that my officials liaise further with yours on these and any other points that may arise, after which we can look at the proposals again. It might also be desirable for the agricultural industry to be given an opportunity to comment before we finalise the proposals. I should therefore be grateful if you could include the agricultural interests in any further consultation. Apart from the fact that they are best placed to identify any pitfalls, the thought of market rents is bound to increase pressure from the workers' side inter alia for higher settlements.

I hope you can agree to this approach. I am copying this letter to members of E(LF) and to Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

CONFIDENTIAL

The language is very stilted. I got no further than the first para!

Prime Minister

Prime Minister (1)
Content for officials to work up the attached text of a draft housing policy statement, for submission to E(LF) in September? Agree that the policy unit comments should be taken account of?
MEPT 7/8

STATEMENT OF THE GOVERNMENT'S HOUSING POLICY PROPOSALS

At the meting of E(LF) which you chaired on 28 July, I explained the need as I saw it for early publication of a statement setting out the Government's housing policy proposals, perhaps in the form of a White Paper. Colleagues took the view, however, that the first priority was to resolve outstanding issues in relation to some of the housing initiatives; the text of a policy statement could then be considered by E(LF) in early September. We have now taken the major decisions, and I have set in hand the necessary arrangements to deal with the outstanding major issues. But if we are to keep open the option of publishing some form of policy statement in September we need to be giving consideration in tandem to the terms of such a document.

Yes

I therefore attach a draft of a possible policy statement. As we agreed in E(LF), it is deliberately not a consultative document, but is couched in terms of a firm statement of the Government's intentions. I envisage, however, that we will need to publish a number of subordinate documents dealing with the operational details of various of the policies, so that my officials can start discussions with those who will be involved in implementing them, and those who will be directly affected by them will have an early opportunity to see what is in prospect. This point is picked up in the final chapter of the draft.

I suggest that the most sensible way to proceed now is for officials from the various interested Departments to meet within the next week or so to consider the text of the draft on a contingent basis. This would at least enable us to have an agreed text before us when we meet again in early September. If you are content, my officials will proceed on the basis.

CONFIDENTIAL

I am copying this, together with copies of the draft statement, to other members of E(LF); the Lord Privy Seal and the Chief Whip; and to Sir Robert Armstrong.

pp N R
5 August 1987

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

06. VIII 13 PM 87

CONFIDENTIAL

DRAFT WHITE PAPER/POLICY STATEMENT: PROPOSALS FOR HOUSING LEGISLATION

CHAPTER 1 PRESENT SITUATION AND FUTURE OBJECTIVES

Introduction

1.1 This White Paper sets out the Government's plans for reforming housing legislation. They are designed to improve the supply and quality of rented housing; to offer increased diversity of forms of tenure to those in local authority housing; and to provide new mechanisms for the direction of resources towards the most acute problems. Encouragement of the owner-occupied sector will be maintained; the increase of this sector in recent years has been a major achievement.

1.2 Many of these policies require primary legislation, which will be brought forward at an early date.

1.3 This introductory Chapter examines how housing provision has developed in this century; identifies those areas in which there has been progress and those where more needs to be done; and sets out the policies which the Government now intends to pursue, in particular to tackle the problems which have grown up in the rented sector.

1.4 An excessive preoccupation in post-war housing policies with controls in the private rented sector and mass-provision in the public rented sector has resulted in substantial numbers of rented houses and flats which are badly designed and maintained and which fail to provide decent, secure homes. Too little effort has been

made to involve the resources of the private sector. Too little attention has been paid to the wishes of tenants, or to their views on how their requirements can best be met. The lack of mechanisms in the public rented sector whereby tenants could express their choices has meant inevitably that there have been local problems of mismatch between supply and demand of housing. The Government considers that these problems will remain unsolved unless they are tackled by policies designed to involve the private sector and to give more choice to tenants, with a special emphasis on the problems of housing in big cities - both in the inner areas, and in the largely council-owned estates on the outskirts to which many people were moved from inner areas in the 1950's and 1960's.

Housing Trends

1.5 There have been enormous improvements in housing conditions in this country during this century. The total housing stock has grown faster than the number of households. In England as a whole there are between half and three-quarters of a million more dwellings than households; though there continue to be some imbalances in areas of high demand, notably in London and the South East. The amount of space per person has also increased steadily and is now among the highest in Europe. Almost all houses now have the basic amenities, there are very few remaining slums, and the general condition of the housing stock is good. Nevertheless there are some major problems of disrepair in the rented sector which are particularly acute in some urban areas.

1.6 At the same time as this change in the condition of the stock has been occurring, there have been three major changes in housing tenure. First, there has been a dramatic increase in owner-occupation, to a point where now about two-thirds of houses in England and Wales are owner-occupied, one of the highest percentages in the world. Second, the private rented sector has declined from about 90% of the total stock in 1914 to only 8% in 1986. Third, there has been a major increase in council housing - from only 11% of all housing immediately before the war to a peak of 29% in 1979.

1.7 The Government welcomes and has done much to promote the growth of owner-occupation. The right to buy for council tenants in particular has significantly reinforced the trend. Since 1979, over one million public sector dwellings have been sold, usually to sitting tenants. It is clear that the majority of people wish to own their own homes, a wish which should be supported. Home ownership gives people independence; it gives them a sense of greater personal responsibility; and it helps to spread the nation's wealth more widely. These are important factors in the creation of a more stable and prosperous society, and justify the favourable tax treatment accorded to borrowing for house purchase by owner-occupiers.

1.8 An expansion of owner-occupation - helped by mortgage interest tax relief - naturally leads to a relative decline in the importance of renting. But the rapid decline of the private rented sector has not been caused by the attraction of owner-occupation alone. Rent controls have prevented property owners from getting an adequate return on their investment. Those who might have accepted a lower return for a temporary letting of

a property have been deterred by laws on security of tenure which would make it impossible for them to regain possession of their property when they needed to do so. These factors have contributed both to shortages of supply and to poor maintenance. Yet, as foreign experience shows, there is an important potential market for private renting for people who need mobility or whose circumstances are such that they do not wish to be tied by ownership of their home. There are also many thousands of privately owned dwellings which might be let which at present remain off the market. The restoration of a significant private rented sector is therefore an important aim of policy.

1.9 Local authority housing now dominates the rented sector. The growth of municipal housing since the war has certainly been effective in increasing the total housing stock, and in clearing the slums. But it has produced an inflexible system of ownership and management which is often not in the tenant's best long term interest. In many big cities the public landlording operations are on such a vast scale that they are inevitably liable to become distant and bureaucratic. In some areas the system has provided good quality housing. In others, insensitive design compounded by bad management has resulted in tenant dissatisfaction and poor maintenance; the quality of the housing and its environment has declined; crime and violence have increased; and the structure of the local economy has deteriorated as many people have left for better opportunities elsewhere. Sometimes the rates have been called upon to subsidise rents without sufficient regard to ability to pay. The system does not focus public resources accurately on the areas or the people most in need of subsidy.

1.10 The predominance of public sector provision of rented housing is not healthy. At the national level, investment in housing has to compete with other public sector spending programmes, and if private investment is not available to supplement limited public sector resources then the total available for housing is unlikely to be sufficient. At the local level, short term political factors can outweigh the importance of efficient and economic management of housing over the long term and lead to unrealistically low rents combined with wholly inadequate standards of maintenance. The allocation of housing through public sector planning results in inefficiencies and bureaucracy of which queueing and lack of choice are an inevitable part. It is preferable to have a more pluralist and more market-oriented system which ensures that housing supply can respond more flexibly to demand, and which allows greater scope for private investment so that public sector resources can be used more effectively to expand provision.

1.11 The quantity of housing available for private renting is insufficient. Mobility is restricted. The condition of the stock is unsatisfactory and there is a substantial backlog of disrepair. In the local authority sector, there are major problems of disrepair and management. The problem of rent arrears has increased; local authorities reported a total of £210m in rent arrears in April 1986. Many dwellings are left empty for too long. Many estates suffer from a poor environment and are plagued by vandalism.

1.12 A more hopeful development in the rented sector has been the performance of housing associations. The housing association movement has shown that a bridge can be provided between the public and private sectors

offering good quality rented accommodation for those in special need or on low incomes. New techniques are being developed which allow private sector resources to supplement public investment.

Objectives for the Future

1.13 The Government is therefore adopting four main housing objectives for future policy, and as a basis for forthcoming legislation. More detail about these objectives is given in the following Chapters.

1.14 First, the Government will continue to spread home ownership as widely as possible, through ensuring suitable market conditions, tax relief on mortgage interest, and by continuing the right to buy. The planning system must continue to ensure an adequate supply of land for housing. Owners with limited means will be assisted in keeping their property in good condition.

1.15 Second, the Government will put new life into the independent rented sector and will move away from the present situation where it is not an economic proposition to let private property. Housing associations will be able to expand their provision for housing at rents which are within their tenants' reach, and the housing association grant system will be restructured so that private finance can be fully employed.

1.16 Third, the Government will seek to develop and change the role of local authorities in housing. It is intended that the scale of local authority housing provision as landlord should gradually be diminished by the development of alternative forms of tenure. Some authorities will want to move in this direction

themselves, and the Government will assist them. Some tenants will want to take the initiative and the Government will give them new rights to do so. We shall also facilitate the further development of authorities' important role as enablers who ensure that everyone in their area, including those whose problems the market will not solve, is adequately housed.

1.17 Fourth, the Government intends to provide mechanisms to focus the use of public money more effectively. Within this approach will be included reforms of the capital control system for local authorities; the development of a new financial regime for local housing authorities to encourage more efficient, business-like management of the stock which remains with them; reform of the improvement grant regime; and the development of new Central Government agencies, to be known as Housing Action Trusts, designed to focus national resources directly on some of the most difficult problem areas.

Involving the Private Sector

1.18 To achieve these objectives it is essential to mobilise the private sector's resources. It would be both wrong and impracticable simply to raise taxes and rates to pay for the provision, renovation and modernisation of public rented housing; to do so would have serious consequences for incentives nationally and tax levels locally. Rather, public money should be used to prepare some of the run- down public sector housing for sale to other owners, including housing associations. In this way public capital can be turned over and used many times. As the condition of the stock is improved and it is sold, more money will become available for further improvement of the dwindling stock which remains in the public sector. This has been demonstrated by sales of housing and housing land in the New Towns and right to

buy sales. The acquisition and management of property by the independent rented sector will broaden the choice available to housing consumers.

Rents

1.19 It is inevitable that policies on the lines proposed will result in a more diverse pattern of rents than at present. In the unsubsidised private sector, rents for new lettings will have to be at the market level, giving landlords a proper return on their investment, if new provision is to be stimulated. In other sectors specifically providing for those on lower incomes it will be appropriate for rents to be set at less than market levels. However, the stock will not be properly maintained if rent levels fail to cover costs of day-to-day management and maintenance and a reasonable charge for depreciation; and in all sectors rents ought at least to cover these basic outgoings.

1.20 In principle, there is no reason why public sector landlords should not in addition seek to secure an adequate return on capital in order to fund new investment. But to obtain such a return from rents alone would mean setting rents at full economic levels which, in some areas, would be beyond the means of many tenants and could even be above the cost of buying the same property with a mortgage assisted by tax relief. There is a need for some degree of subsidy to the providers of rented housing in such cases. Such subsidy would to some extent match the effect of mortgage interest tax relief for owner-occupiers. Different systems will be appropriate in different parts of the rented sector.

1.21 Beyond this, the housing benefit system will continue to provide support to all who need help with their rent.

Inner Cities

1.22 Many of the policies described later in this White Paper will enable significant improvements to be made in housing conditions in the inner city areas. This will also improve the general environment in those areas. The policies will in this way contribute towards the Government's major aims of urban policy, and will be aligned with other developments in that field.

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CHAPTER 2 OWNER-OCCUPATION

2.1 The owner-occupied sector of the housing market has expanded continuously throughout this century. In 1914 there were only 0.8m owner-occupied dwellings. By 1938, 32% of the English stock was owner-occupied; by 1979 57%. Since 1979 there has been a further advance to 65% by the end of 1986, representing 12.3m dwellings.

2.2 Surveys have shown that most households would prefer to own their home rather than rent. So the increase in owner-occupation has been successfully meeting a widely held aspiration. In general owner-occupiers also take a strong interest in maintaining and improving their homes - so the spread of owner-occupation has helped and should continue to help to maintain the condition of the stock, provided owners understand what work needs to be done and can find the resources to finance it.

2.3 For all these reasons the Government will continue to give strong support to owner-occupation, and to extending it further where it is appropriate to do so.

2.4 There are three main tasks for the Government in support of owner-occupation. First it must ensure the smooth operation of the free market in buying, selling and constructing houses. Secondly, it must do what it can to ensure that individual purchasers or prospective purchasers have the opportunities to acquire homes suitable to their needs and their means. Thirdly,

it must ensure that owners know where to turn for advice about maintenance and repair and how it might be financed; while, for those unable to find the necessary funds themselves, there needs to be an adequate system of public support.

The Housing Market

2.5 The liberalisation of the financial markets under this Government has encouraged the smooth operation of the housing market to support the process of buying, selling and constructing houses. There is now keen competition between building societies, banks and other financial institutions to provide mortgage finance to purchasers, and the range of choice of terms and services is steadily growing. The Government will continue to encourage the development of the services to housing purchasers provided by this financial market, subject only to the necessary degree of consumer protection.

2.6 The Government has also encouraged liberalisation, competition and improved services in other aspects of house purchase, including conveyancing, estate agency and the processing of searches and registration of title.

2.7 It is also a key requirement that the planning system should ensure an adequate and continuing supply of land for housing, including both housing for owner-occupation and for other housing requirements. Much of the land needed can be found by re-using sites that have previously been developed and by making use of vacant land in urban areas. Recent work by the Ordnance Survey has shown that in the last two years nearly half (about 46%) of land developed for housing has been recycled

land of this kind. This process serves both conservation and urban renewal objectives. The Government will continue to encourage full and effective use of land in urban areas, both through the planning system and by financial support for the reclamation of derelict land and for urban regeneration.

2.8 As well as facilitating the re-use of urban land, the planning system must ensure that proper provision is made in development plans for housebuilding in the future. That process of plan review and revision is a continuing one, and must take account of up-to-date information on population growth and household formation and of trends in economic activity and employment. By careful and positive planning these needs can be met without prejudicing other important objectives including the conservation of the countryside and the maintenance of the Green Belts.

Support for Individual Purchasers

2.9 For individual housebuyers mortgage costs can bear heavily in the first few years. Tax relief on interest paid gives substantial help to purchasers and the Government will retain this important assistance.

2.10 Some prospective purchasers are initially unable to afford the full cost of purchasing a house or flat, but would like to make a start on buying. Shared ownership has been developed during the last 8 years to meet this need. Under shared ownership arrangements a purchaser buys a proportion of a house or flat on the usual mortgage basis, but rents the rest from a suitable agency, often a housing association. As his income grows the proportion owned by the buyer rises and he can eventually become a full owner. Shared ownership has

proved a useful means for people to get started on home-ownership, and the Government will be encouraging housing associations, the financial institutions and the independent rented sector to develop it further.

Right to Buy

2.11 Many tenants of local authorities want to buy their present homes rather than to move out to acquire another home in the open market. The right to buy, introduced in 1980, has proved to be one of the most successful reforms undertaken by the present Government. About a million tenants have already bought their homes under the right to buy or by agreement since April 1979.

2.12 The spread of owner-occupation on council estates is also contributing to the repair and maintenance of the stock, with a recent national survey showing that over four-fifths of buyers had carried out some type of improvement since purchase. As a result estates become more diverse and attractive as places to live.

2.13 Most landlords have administered the right to buy fairly and efficiently. But a few local authorities are slow in dealing with sales. There is already power for the Government to step in and take over sales, but tenants ought to have power to take action themselves if their applications are delayed. The Government therefore proposes that a tenant should have power to serve notice on the landlord calling on it to proceed. If it failed to do so, and the tenant was not to blame for the delay, the tenant would have power to pay the rent to a stakeholder instead of to the landlord. When the sale

was completed, the rent and the accrued interest would be put towards the purchase price to compensate the tenant for the delay.

2.14 The Government also proposes that the cost-floor rule should be abolished. The rule is that the tenant's right-to-buy discount may not reduce the purchase price below the sum of certain costs incurred since 31 March 1974 in respect of the property. This has discouraged sales and led to complaints from tenants, who feel that it is unfair that they should lose discount because their homes happen to have been built, acquired or improved since 1974.

Repair and Improvement

2.15 Home ownership gives individuals the freedom to alter and improve their homes as they wish and makes a valuable contribution to improving the housing stock and allowing it to meet changing needs. But ownership also carries with it a responsibility to keep the home in good repair. The Government will continue to help owners discharge that responsibility in partnership with financial institutions, the building industry, local authorities and the voluntary sector. The Government's proposals take account of the many comments received on the Green Paper "Home Improvement - A New Approach" published in May 1983 (Cmnd 9513).

2.16 Private spending by individual owners already accounts, through income, savings and loans, for the vast majority of resources devoted to improving the private stock. This is as it should be. The Government intends to enlist the skills and resources of the private sector in four main areas:-

i. in improving householders' awareness of what work needs to be done on their property and when;

ii. in providing finance for repair and improvement. The building societies and banks are already developing imaginative loan packages, some especially tailored to those on limited incomes, and the Government will encourage them to make such loans more widely available;

iii. in providing a better quality product. The Government will work with the building industry to improve the standard of repair and improvement work;

iv. in encouraging a vigorous urban renewal programme.

2.17 The Government also wants to see more agency service schemes dedicated to helping people bring about the repairs and improvements they need. It has already legislated to enable registered housing associations to offer such services, and is providing £3m towards the cost of establishing 50 new schemes. It will legislate further to clarify the powers of local authorities to offer agency services, and to enable the Secretary of State to make financial contributions.

2.18 Where owners are unable to afford the full costs of essential repair and improvement work, the Government accepts that help should be given through a reformed system of <u>improvement grants</u>. Primary

legislation will be needed to target grant to those people who need it, to encourage better take-up of grant, and to lever in private investment.

2.19 The present four types of grant will be simplified. The Government will introduce a single form of mandatory grant available to bring property up to a new standard of fitness. Above this standard, grant assistance will be at the discretion of local authorities. In some areas house prices are rising fast and to avoid windfall profits grants will be repayable in certain circumstances. Grant entitlement, currently based on rateable values, will be fairly determined by a straightforward test of household resources. It will take into account the cost of the work that is needed, and the household's ability to finance repair and improvement work from income and savings. To simplify administration the new test will be aligned with the reformed income support and housing benefit systems, but its scope will reflect the nature and extent of repair and improvement costs. Grants will continue to be available in certain circumstances to landlords and tenants. Grants will also continue to be available to adapt homes for the benefit of disabled people.

2.20 So far as the Home Insulation Scheme is concerned, proposals have already been announced for targetting grants on those least able to afford the work. However the arrangements under the existing legislation operate on different lines from the home improvement grant system, even though both contribute towards a common objective of improving the housing stock. The Government therefore proposes to bring local authority powers to pay homes insulation grants within the same broad statutory framework as the reformed home improvement grant system, though local authorities will continue to have discretion to grant aid insulation

measures alone. Greater alignment with the home improvement system will make it easier to consider homes insulation measures alongside related improvements and repairs and to pursue consistent policies for improving all aspects of the housing stock including its energy efficiency.

2.21 The Government also intends to encourage local authorities to direct help to the areas of greatest housing need. A single type of statutory renewal area will replace the present General Improvement Areas and Housing Action Areas. Within newly designated areas, local authorities will be encouraged to consider a mix of renovation and selective redevelopment.

CHAPTER 3 THE INDEPENDENT RENTED SECTOR: RENTING IN THE PRIVATE SECTOR

3.1 As a result of statutory restrictions, there is now very little private investment in providing new rented housing. And when landlords obtain vacant possession of dwellings at the end of tenancies they often prefer to sell outright into owner-occupation rather than to relet. Owners who do not want to sell their property sometimes keep their houses vacant rather than let to a tenant because of the inadequate returns, and the difficulty of regaining possession when they need it. Many of the remaining private landlords also find it difficult to find sufficient resources to keep their property in good repair.

3.2 Tenants themselves have not benefited as a whole from the present rent restrictions, since the supply of privately rented housing has shrunk below what is needed, and its condition has deteriorated. Those who do have tenancies find it difficult to move because they cannot find anything else at such low rents.

Action Taken So Far

3.3 The Government believes that this is not a satisfactory position. Independent landlords of various kinds using private sector resources ought to have a significant part to play in providing satisfactory rented housing for those who need it. The private sector should be particularly well placed to respond flexibly and swiftly to different local needs and to provide a variety of different types of accommodation to different

standards, readily available in different places for short or long let so as to assist mobility especially for job movers.

3.4 The first essential step to encourage new investment in this sector is to enable private landlords to charge rents on new lettings at a level that will give them a reasonable return.

3.5 The Government has already made some progress in this direction. The Housing Act 1980 created the new concept of "assured tenancies". New and substantially renovated dwellings can now be let by approved landlords at freely negotiated rents. Assured tenants have full security of tenure for the duration of their initial tenancy provided they comply with its terms. At the end of the tenancy the tenant has a right to a new one on terms which may be agreed between the parties, or, if they cannot agree, which can be fixed by the County Court. Any rent fixed by the Court will be at a market level.

3.6 The 1980 Act also created a second new tenure of shorthold lettings. This was introduced to assist those potential landlords who may be prepared to let for a period even at a restricted rent provided they can be absolutely certain of getting their property back at the end of the period. Under the shorthold provisions landlords may let on this basis for a fixed period but either landlord or tenant may apply for the registration of a fair rent.

3.7 Assured tenancies and shorthold have begun to help landlords bring more properties on to the market, but on a limited scale so far.

3.8 The Government has also taken steps to help independent landlords by providing in the Local Government Bill a new power for local authorities to give financial assistance for the provision of independent rented housing. The Government hopes that authorities will use this new power to encourage the development of privately-financed schemes at rents which tenants will be able to afford.

The Government's Proposals

3.9 There are some who argue that the right way to revive the private rental market would be to abolish all controls and leave the determination of rent levels and the degree of security of tenure to be settled contractually between landlord and tenant with no statutory constraint. The Government considers that this would not give sufficient protection to tenants' interests. It is reasonable that, when entering a tenancy, the tenant should expect to have to pay the market rent for the property, with suitable upratings over time. But once a tenant has a market rent tenancy and is occupying a property as his or her home it is right that he or she should have a reasonable degree of security of tenure. This will continue to require some degree of statutory backing.

3.10 The Government accordingly proposes to make progress by building on the two concepts of assured tenancies and of shorthold.

3.11 They propose that for all new letting from the date new legislation comes into force landlords should be able to choose either:-

i. to let on the assured tenancy basis with rents freely negotiated between landlord and tenant, but security of tenure protected; or

ii. to let on the shorthold basis, with no security beyond the period of the tenancy but with the right for either party to seek registration of an appropriate rent.

3.12 For assured tenancies this proposal is an extension of the present regime. It will now apply to all new lettings. Changes are proposed in order to make assured tenancies suitable as the normal letting regime. Of these three are particularly important. At present landlords who are individuals cannot grant assured tenancies; this restriction will be removed. Second, the present requirement for landlords of assured tenancies to be approved by the Secretary of State will be abolished. The present system of approvals will no longer be practicable. Third, the procedures for the renewal of assured tenancies will be simplified.

3.13 The major change proposed to the shorthold regime is that while the tenant will retain the right to seek registration of a rent at any time, the rent will be at market level, taking account of the limited degree of contractual security which the tenant has been offered.

3.14 The Government does <u>not</u> propose to make any substantial changes in the regime for <u>existing</u> tenancies subject to the Rent Acts. It would not be right to disturb these existing tenancies, though minor amendments will be made to the succession rules. As and when such tenancies come to an end, landlords will be free to relet on the new basis.

3.15 It is right that landlords should be able to secure a reasonable return on their investment when they let property. It is equally important that tenants should enjoy reasonable security in their own homes. The changes proposed should meet both of these objectives.

3.16 It is important that existing tenants whose Rent Act rights will be preserved should be protected against the minority of landlords who may be prepared to harass them in order to obtain vacant possession and to relet at higher rents. The Government therefore proposes to increase the existing statutory protection by creating a new offence where the landlord harasses the tenant knowing that his actions are likely to lead the tenant to leave his home; this should be easier to enforce than the present offence, which requires proof of intent. The Government also proposes to strengthen the civil law to enable tenants who have been evicted illegally or forced out by harassment to claim greater compensation. This would be an important additional deterrent to harassment.

3.17 The housing benefit system will continue to provide help to those who need it. However once rents are deregulated it will be necessary to ensure that landlords cannot increase the rents of benefit recipients to unreasonable levels at the expense of the taxpayer. Local authorities' discretion to restrict benefit on unreasonable rents is already being strengthened as part of the housing benefit changes to take effect in April 1988. To assist authorities in exercising this discretion effectively, the Government proposes in addition to require rent officers to scrutinise the level of rents which are being met by housing benefit. Where a rent is excessive, the subsidy

to the local authority will be restricted to an appropriate market rent for the dwelling in question. Guidance on the principles for assessing rent levels will be issued by the Secretary of State. The Government will also take reserve powers to place direct limits on housing benefit, rather than on subsidy, should this prove necessary.

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CHAPTER 4 THE INDEPENDENT RENTED SECTOR: HOUSING ASSOCIATIONS

The Present Position

4.1 Over the past 30 years housing associations have come to play an increasingly important part in the provision of rented housing. They now have 0.5m dwellings, about 3% of the total dwelling stock but about 25% of the independent rented sector.

4.2 There are at present over 2,000 associations registered with the Housing Corporation. They range in size from large organisations with several thousand dwellings to small local bodies with a handful of dwellings. Their objectives and management styles are equally various. They share however the unifying feature of being non-profit making bodies devoted to the provision of rented housing at reasonable rents.

4.3 The Government believes that housing associations have a vitally important part to play in the revival of the independent rented sector. During recent years they have been almost alone in the independent sector in investing in rented housing, and have played a key part in developing new styles of management and new forms of low cost home ownership. It will be important to build on this success and develop it further. Associations should also be given the opportunity to maximise the use of private funds so that they can expand their provision for those in real need of rented housing. Their financial regime

will need to be adjusted to take account of deregulation, and to enable the rents they charge on new developments to be within the reach of their tenants.

Further Proposals

4.4 At present housing associations are heavily dependent on the Exchequer for financial support. This is because the "fair rents" determined by the Rent Officer are only sufficient to cover a small part of the costs of new developments or refurbishments. Typically the Exchequer has had to pay for 80-90% of the cost of schemes through Housing Association Grant.

4.5 More recently the Housing Corporation and some individual housing associations have been developing some alternative financial possibilities with the encouragement of the Government. These arrangements have involved two key elements. First, schemes are being developed using assured tenancies rather than Rent Act tenancies. Secondly, private sector sources of finance have been sought on an index-linked or low-start basis, with higher repayments in later years when rental income has increased. The combination of these two elements is making it possible to develop viable schemes with much lower levels of Exchequer grant - thus enabling limited amounts of Exchequer resources to support a larger total amount of development.

4.6 The Government now proposes to develop these arrangements further. For new lettings housing associations will be enabled to let on an assured tenancy basis or on a shorthold basis in the same way as the private rented sector. This should give them the essential freedom and flexibility in setting their rents

to enable them increasingly to secure private sector finance on an index-linked or low-start basis as an alternative to funding from the National Loans Fund.

4.7 Housing Association Grant (HAG) will continue to be needed to meet that part of the cost of new developments and refurbishments which cannot be covered by rental income. But the object will be to finance an increasing part of the programme on an index-linked or low-start basis, with a major share of schemes funded by private finance. For schemes funded in this way appropriate levels of grant will be fixed for different parts of the country so that associations will be able to set rents on new developments at levels which are within the reach of the tenants for whom they traditionally provide.

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CHAPTER 5 THE ROLE OF LOCAL AUTHORITIES IN HOUSING

Meeting Housing Needs

5.1 Local housing authorities have a vital strategic role to play in identifying the housing needs of their areas and ensuring that resources are harnessed and targetted to meet those needs. They have major responsibilities as providers of rented housing themselves. But they are also in a key position to promote and assist the revival of the independent rented sector in an "enabling" role so as to make optimum use of the resources and skills of those in the private sector who are beginning to be interested again in the rented sector. In order to facilitate and maximise the use of private finance, they will need to take a comprehensive view of needs for housing, and to adopt new approaches to its provision and financing. And they will need to work closely with housing associations; private landlords; developers; and building societies and other possible providers of finance. Local authorities are being encouraged to adopt this new approach in preparing their housing investment programmes, and in reviewing and improving the quality of their local housing strategies.

Local Authorities as Landlords

5.2 Local authorities are themselves large-scale providers of housing, as landlords of some 4½ million

houses and flats. They will continue to own and maintain stock, even though many more council tenants will be buying their home under the right to buy, and others will be transferring to other landlords.

5.3 Many housing departments provide a good service to tenants. But, despite the efforts which local authorities and their staff have devoted to improving the quality of management, there are still too many estates where the quality of life is less than satisfactory. It is not what tenants want, and it is not what the original designers of the estates had in mind. Tenants live there not from choice, but because they have nowhere else to live. Many tenants feel that standards of maintenance are inadequate and management is too remote.

5.4 The aim should be to find ways of enabling more balanced and mixed communities to develop. This means improving standards of service and maintenance, often by bringing those responsible for maintenance closer to the individual estate. It means enabling tenants to have a wider choice of tenure and greater control over their own circumstances.

5.5 Some progress has already been made. Many authorities have developed innovative approaches to improve the quality of life and environment on individual estates. Some have developed new forms of decentralised management, and tenant involvement in management decisions. Some have worked with the urban programme and other central agencies and initiatives to improve the local environment. The DOE Estate Action team, with the Department's Regional Offices, has also been working with local authorities since 1985 to tackle the problems of individual estates and to target

available resources more accurately towards them. They work on a number of basic principles, many derived from the work of the Priority Estates Project over a number of years. These include the need to tailor solutions to the needs of a particular estate; the value of bringing management and maintenance services on to the estate itself; and the essential need to win tenants' confidence at all stages in proposals for change and improvement. The work of Estate Action has also highlighted the importance of involving the private sector wherever possible in refurbishment both for sale and rent. This brings additional resources over and above what would be available from public sector funds alone.

5.6 All these initiatives have shown what can be achieved with council stock. But further action is needed. There needs to be a more businesslike framework for local authorities' housing activities, which will demonstrate more clearly the efficiency and effectiveness of their methods of operation. There needs to be more scope for council tenants to exercise choice by opting for a different landlord. Sometimes there will be scope for a single-minded body, on the lines of the highly successful Urban Development Corporations, to be given the job of improving particularly difficult areas of predominantly council housing, with a view to subsequent disposal either for owner-occupation or tenancy. The rest of this Chapter, and Chapter 6, describe the Government's proposals in this area in more detail.

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A New Financial Regime

5.7 The provision and management of council housing is a massive and costly task. It needs to be carried out in a businesslike way, and the financial framework should, as far as possible, assist in the analysis of the scale and nature of the task that faces each council, and in the assessment of each council's success in tackling it. The Government therefore propose to replace the existing statutory Housing Revenue Accounts of local authorities with a new financial structure which removes the uncertainties and inconsistencies of the old system, and is more in accord with modern accounting practice. The new accounts will be entirely distinct from authorities' other accounts, and it will no longer be open to councils to grant indiscriminate subsidies from the rate fund to mask the consequences of costly policy decisions, or to cushion management failures. Conversely, profits from the tenants will not be available automatically to fund other services.

5.8 The Government accepts that rents have to be kept at an affordable level, and that homes must be managed and maintained to a reasonable standard. That is a prime object of the policy. Where these considerations would otherwise force a local authority into deficit on the housing account, Exchequer subsidy will be available to bridge the gap.

5.9 The new financial regime will also cover capital receipts and capital expenditure. Because of the continuing success of the right to buy, more than half the capital expenditure on housing by local authorities is now funded from capital receipts, but it has been necessary hitherto for the Government to place controls on the rate at which such receipts can be used for new investment. The new system will enable authorities to

make optimal use of their receipts for housing purposes, especially the renovation and improvement of the stock. Where expenditure cannot be funded from receipts, approvals for borrowing to finance housing expenditure will be concentrated on those authorities with the greatest needs.

Right for Tenants to Transfer

5.10 The Government intends to introduce a right for local authority tenants who are not satisfied with the standard of management offered by their present landlord to choose to transfer to other landlords.

5.11 Like the right to buy, the right to transfer will be exercisable at will by individual tenants, at a time of their own choosing. Those who are content with their council landlord will not need to exercise it. Tenants who choose to transfer will take with them their right to buy, and, where appropriate, the other important rights the Government has given them under the Tenants' Charter. Their rents will stay in line with council rents, and their landlords will be formally approved on the basis of their suitability and financial stability. Many approved landlords will be established housing associations, but it will be open to those tenants who want to, to take control of their own homes by forming a cooperative with their neighbours.

5.12 In blocks of flats, and other situations where tenants share services or parts of buildings in common, arrangements cannot, of necessity, be as simple as they can be in the case of individual houses. It is important to establish clearly where the responsibility lies for managing and maintaining these common services, and it is important to respect as far as possible the

wishes of all the tenants involved. These wishes may well be different. Some tenants may want a change of landlord; their neighbours may want to stay with the council. The scheme will therefore provide that, even where a majority of tenants in a building choose to exercise their right to transfer to a new landlord, the minority can, if they wish, continue in their homes as tenants of the council. In those circumstances, the authority would sell the freehold of the block, but the new ground landlord would be obliged to lease back to the council the dwellings of all those tenants who wanted to stay with them. Where there are mixed tenures like this, the arrangements for reconciling the different interests will be modelled on those which have been developed and refined over the years in private sector mansion blocks - and recently improved in the Landlord and Tenant Act 1987.

CHAPTER 6 HOUSING ACTION TRUSTS

6.1 The previous Chapter set out a number of proposals for giving wider choice to local authority tenants, and for improving the circumstances of run-down council estates. Experience shows that arrangements of these kinds will often be effective, particularly on a relatively small scale. But there are some areas of local authority housing, particularly in some of the inner urban areas, where social problems and housing disrepair are so serious that in the Government's view more direct action - involving both public and private sectors - is needed to obtain improvements over a reasonable timescale. Unless major improvements can be made quickly in the fabric and general environment of these areas it is unlikely that policies such as the right to transfer to other landlords would be successful.

The Urban Development Corporation Model

6.2 There are several models to follow. The work of Estate Action, and the improvements that can be made by designation of General Improvement Areas and Housing Action Areas, show that the detailed problems of bad housing are not insoluble given the will and the mechanisms. On a larger scale, the Urban Development Corporations in London and on Merseyside have shown the results that a body single-mindedly devoted to developing a run-down area can achieve. They have brought a new drive to their task and results have been achieved that the local authorities have not been able to achieve by themselves in the past.

6.3 The Urban Development Corporation model is not wholly appropriate as it stands for the housing field. The housing problem being tackled concerns densely developed urban areas rather than largely derelict industrial areas in need of regeneration (though the two may overlap). Different kinds of expertise and people will be needed. Different statutory powers could well be necessary. The model needs adapting. The Government therefore proposes to take powers to establish analogous bodies in designated areas to take over responsibility for local authority housing, renovate it, and pass it on to different tenures and ownerships including housing associations, tenant cooperatives and approved private landlords. The new bodies, to be known as Housing Action Trusts (HATs), will be able to offer tenants wide scope to exercise their right to transfer to various kinds of landlord. And as well as improving housing conditions, they will act as enablers and facilitators for provision of other community needs such as shops, workshops and advice centres.

6.4 This is a radical new approach to housing problems, and the Government therefore proposes to implement the new powers gradually on an experimental basis.

Operation of Housing Action Trusts

6.5 The HATs will have a limited lifespan. Their remit will be to secure the improvement of the stock transferred to them in their area and then dispose of it to other owners and managers. Through this process they will make use of both public and private sector resources; they will assist in the Government's aim of diversifying tenure and ownership, in conjunction with other policies such as rent deregulation and right to

transfer; and the money released by their disposals will be available for use in improving other areas thus creating a continuous recycling of resources.

6.6 It is too early to say how many HATs will initially be created, which areas they will tackle, or how large those areas might be. But the physical quality of the stock, the effectiveness of its management and the general environment of the area will be among the relevant considerations. Each HAT, like an Urban Development Corporation, will consist of a Chairman and members appointed by the Secretary of State; they will include people with direct experience of the area.

6.7 It will be desirable for each HAT to carry out its task in close conjunction with local authorities concerned, and with the tenants of the properties transferred to it. The maximum cooperation is needed if problems are to be successfully tackled. Tenants' interests will be deeply involved, for example in respect of refurbishment and decanting programmes and eventual disposal of property by the HAT.

Future Programme

6.8 The Government sees the concept of HATs as a vital part of their overall housing policy, and as a means of single-mindedly tackling some of the most difficult areas of local authority housing. Once statutory powers are available, pilot HATs will be set up and practical lessons learned from the way they work. This will pave the way for an extended programme, based on the experience of the first HATs and their effectiveness in applying public and private sector resources to the improvement of housing and the widening of choice for local authority tenants.

CHAPTER 7 EFFECTS OF THE NEW POLICIES: NEXT STEPS

Financial Effects

7.1 The policies and proposals described in this White Paper have important implications for the level and balance of public and private expenditure on housing.

7.2 On the capital side, the reform of the private rented sector and the new financial arrangements for housing associations will draw in additional resources from private investment. Receipts from right to buy sales will continue to be substantial, and transfer of rented stock to other landlords will generate additional receipts (offset to some extent by the need to deal with accumulated disrepair). Some additional public sector capital expenditure will be required, in the early years, for investment in HAT areas. Improved targetting achieved through the new financial regime for local authority housing, the new housing association grants and the new home improvement grants, as well as through increased involvement of the private sector generally, will all help to ensure that public sector capital investment is concentrated where it is most needed.

7.3 The new policies taken together will however lead to some increase in public sector current expenditure, through moving away from indiscriminate assistance to tenants by keeping rents down to more selective assistance with housing costs through Housing Benefit. The increase in housing benefit will be partly offset by lower general subsidies to local authority

housing revenue accounts and less revenue deficit grant to Housing Associations. A further offset will come from increased revenue from tax charged on rental income received by private investors.

7.4 The overall effect of these different factors cannot be precisely estimated at this stage since there is too little recent experience of substantial private sector investment in the rented housing sector. In general however, the greater involvement of private sector investment, and the greater efficiency it will bring, will more than compensate for any associated increase in demands on the public sector, with the result that a greater volume of housing output will be achieved than under the current system for any given level of public expenditure. The overall level of public expenditure on housing will of course be determined annually, as at present, through the Public Expenditure Survey machinery.

7.5 Where new policies are being implemented, there need to be methods of evaluating their success. This is an important aspect of the Government's Financial Management Initiative. The objectives of policies should be clear, and criteria should be developed - quantified wherever possible - which will show whether and to what extent those objectives have in the event been achieved.

7.6 Previous Chapters of this White Paper have indicated for each of the main elements of the policy the overall objectives which the Government is seeking to achieve. As proposals are further developed in detail an appropriate analytical framework will be developed to gather data and to monitor performance.

CONFIDENTIAL

Summary of Proposals

7.7 The previous Chapters of this White Paper have set out the main strands of housing policy which the Government intends to pursue over the next few years, and the legislative proposals which flow from them. Legislation will need to cover:-

a. Deregulation of new lettings by private landlords.

b. Deregulation of housing association new lettings, and revision of the financial regime for housing associations to facilitate greater use of private sector resources.

c. A more businesslike financial regime for local authority housing.

d. A right for local authority tenants to transfer to other landlords.

e. Powers to set up Housing Action Trusts in order to renovate run-down local authority housing.

f. A better targetted system of improvement and repair grants.

g. Detailed changes to the right to buy.

7.8 Legislation on most of these topics will be included in a Bill to be considered by Parliament in the present Session. But some will require further work before legislation is brought forward. The proposed

reform of the local authority housing financial regime described in Chapter 5, for example, will be included in legislation in a later Session.

7.9 Work is now proceeding on developing the necessary legislation. There is also a need for further, more detailed explanatory material to be issued on a range of topics, some of which will be included in the forthcoming Bill and some in legislation for a later Session. The main issues to be discussed in these documents will be various aspects of the topics listed in paragraph 7.7 above. Some documents have already been issued. Every effort will be made to issue the remainder as quickly as possible.

7.10 The Government intends to proceed with implementing its policies as quickly as possible in order to ensure the greater private sector involvement in housing investment, and the wider choice for the consumer and the tenant, which it sees as vital aspects of its future programme.

CONFIDENTIAL

cc BG.

HOME SECRETARY

QUEEN ANNE'S GATE LONDON SW1H 9AT

4 August 1987

nbpm

Dear Nicholas,

Thank you for your letter of ~~9~~ July about your proposals at trap further to discourage the harassment and illegal eviction of tenants following the decontrol of rents for new private lettings. I share your concern that there should be seen to be adequate safeguards against evasion of the law when decontrol is introduced.

I understand that your officials have already been in touch with mine concerning the new offence you are proposing, as well as the enforcement of the existing law. Your proposals seem entirely to meet the concerns we had. I am particularly grateful that you have agreed not to add to the existing burdens on the police. I am therefore happy to support your proposals. I should be glad if your officials could continue to consult mine on the detailed formulation of the new offence.

I am copying this letter to other members of E(LF), to the Lord Chancellor and Sir Robert Armstrong.

Yours,

Douglas.

The Rt Hon Nicholas Ridley, MP

CONFIDENTIAL

HOUSING : Policy Pt9



Prime Minister

DRV

21/7.

PS/Mr Waldegrave

HOUSEBUILDING: JUNE 1987

Attached is the draft of the press notice giving the provisional figures for housebuilding in June, scheduled to be released at 11.30 on Monday (3 August). The comments below are on seasonally adjusted figures for Great Britain.

The present draft contains provisional figures for March which should be replaced by final figures incorporating some late returns from local authorities. Because of computer problems, these are not yet available but it is hoped they will be incorporated in the press release. While these figures for March will be better ones, we do not expect they will make significant differences to the content of the press notice.

In putting forward the provisional May figures a month ago, I warned that these were more tentative than usual because the Civil Service industrial action had delayed incoming mail. The provisional figures for May have subsequently been raised by about 3,000 starts and 2,000 completions.

Total starts in the second quarter are estimated to have been a little lower than in the previous quarter, but still at the relatively high annual rate of 210,000. Comparing the first half of this year and of last year, starts are up by 8%. Completions recovered from an annual rate of about 180,000 in the summer of 1985 to around 200,000 last autumn at which rate they appear to have levelled out. Comparing first halves of the two years, 1987 is 3 % up on last year.

Private sector starts, after being reduced by bad weather conditions in January, were made good in February and March and have since dropped back again to an annual rate of about 180,000. Private completions continue at the annual rate of around 170,000 which was reached in the autumn of last year, the highest level at any time since 1973.

Building societies' net new commitments for loans on new dwellings were at a peak annual rate of 140,000 in the June quarter of 1986, but fell sharply to 95,000 by the end of the year. There has been some recovery since then and the annual rate in the June quarter was 110,000, but this is about 30,000 lower than a year before.

Public sector starts and completions, having fallen in the first quarter of 1987, picked up in the second quarter to rates of about 30,000, slightly lower than the numbers of starts and completions in 1986.

W H STOTT
HDS
N13/08
212 8550

30 July 1987

copies

Mr Norgrove (No 10)
PS/Secretary of State
PS/Mrs Roe
PS/Sir Terence Heiser
Mr Owen
Mr Osborn
Mr Watson
Mr Wroe (o.r.)
Mr Gibson
Mr Holmans
Mr Laufer
Mr Lewis
Mr Sando
Mr Vaughan
Mr Lawson (Inf)
Mr Whybrow
Mr Robertson

3 August 1987

HOUSEBUILDING: JUNE 1987

In June 1987, it is provisionally estimated that 20,700 dwellings were started in Great Britain compared with 20,500 in June 1986. Completions numbered 16,700 compared with 18,300 in June last year.

In the second quarter, total starts, on a seasonally adjusted basis, were down 3 per cent on the first quarter, but 4 per cent higher than in the second quarter of 1986. Total completions were up 3 per cent on the previous quarter and 3 per cent higher than a year earlier. In the private sector, making similar comparisons, starts were down 6 per cent on the previous quarter, but 4 per cent higher than a year earlier, while completions were up 1 per cent and 7 per cent, respectively. Public sector starts were up 16 per cent on the previous quarter and 4 per cent higher than a year earlier, while completions were up 14 per cent and down 16 per cent, respectively.

NOTES TO EDITORS

Monthly housebuilding figures for Wales and Scotland are not published in the press notice, but estimates are included in the monthly figures for Great Britain.

Because monthly figures are very variable, attention is directed to the latest three months rather than to the latest single month.

Press inquiries: 01-212 4682-6
(out of hours calls: 01-212 7132)

Public inquiries: 01-212 3434
(ask for Public Inquiry Unit)

ADDITIONAL TABLE FOR INTERNAL USE ONLY

RESTRICTED UNTIL AFTER PUBLICATION

NOT FOR INCLUSION IN PRESS NOTICE

3 AUGUST 1987

HOUSEBUILDING PERFORMANCE

GREAT BRITAIN

JUNE 1987

TABLE A — New Permanent Houses and Flats — Thousands of dwellings

Period	Starts			Completions		
	Public	Private	Total	Public	Private	Total
UNADJUSTED						
Last 3 months on previous 3 months						
Jan-Mar 1987 P	6.9	44.3	51.2	5.9	39.6	45.6
Apr-Jun 1987 P	8.5	49.9	58.4	7.3	39.9	47.2
% change	+23	+13	+14	+22	+1	+4
Last 3 months on a year earlier						
Apr-Jun 1986	8.5	49.7	58.2	9.1	38.8	47.9
Apr-Jun 1987 P	8.5	49.9	58.4	7.3	39.9	47.2
% change	-	-	-	-20	+3	-2
Year to date on a year earlier						
Jan-Jun 1986	16.2	85.4	101.6	16.5	73.6	90.1
Jan-Jun 1987 P	15.4	94.1	109.5	13.2	79.5	92.8
% change	-5	+10	+8	-20	+8	+3
SEASONALLY ADJUSTED						
Last 3 months on previous 3 months						
Jan-Mar 1987 P	6.8	47.8	54.6	6.6	41.6	48.2
Apr-Jun 1987 P	7.9	44.9	52.8	7.5	42.1	49.6
% change	+16	-6	-3	+14	+1	+3
Last 3 months on a year earlier						
Apr-Jun 1986	7.6	43.3	50.9	8.9	39.4	48.3
Apr-Jun 1987 P	7.9	44.9	52.8	7.5	42.1	49.6
% change	+4	+4	+4	-16	+7	+3
Year to date on a year earlier						
Jan-Jun 1986	15.5	83.8	99.3	17.3	77.2	94.5
Jan-Jun 1987 P	14.7	92.7	107.4	14.1	83.7	97.8
% change	-5	+11	+8	-18	+8	+3

Percentage changes are based on rounded figures for Seasonally Adjusted and unrounded for Unadjusted figures

NB - = Less than half the final digit shown

P = Provisional estimate

ADDITIONAL TABLE FOR INTERNAL USE ONLY

RESTRICTED UNTIL AFTER PUBLICATION

NOT FOR INCLUSION IN PRESS NOTICE

3 AUGUST 1987

HOUSEBUILDING PERFORMANCE

ENGLAND

JUNE 1987

TABLE B — New Permanent Houses and Flats — Thousands of dwellings

Period	Starts			Completions		
	Public	Private	Total	Public	Private	Total
UNADJUSTED						
Last 3 months on previous 3 months						
Jan-Mar 1987 P	5.9	38.5	44.4	5.2	34.4	39.7
Apr-Jun 1987 P	6.8	44.0	50.9	6.3	35.1	41.4
% change	+16	+14	+15	+20	+2	+4
Last 3 months on a year earlier						
Apr-Jun 1986	7.2	44.0	51.2	7.7	33.2	40.9
Apr-Jun 1987 P	6.8	44.0	50.9	6.3	35.1	41.4
% change	-6	-	-1	-18	+6	+1
Year to date on a year earlier						
Jan-Jun 1986	13.7	74.5	88.2	14.0	63.3	77.3
Jan-Jun 1987 P	12.7	82.5	95.2	11.5	69.5	81.0
% change	-8	+11	+8	-18	+10	+5
SEASONALLY ADJUSTED						
Last 3 months on previous 3 months						
Jan-Mar 1987 P	5.9	41.4	47.3	5.8	36.1	41.9
Apr-Jun 1987 P	6.2	39.6	45.8	6.4	36.9	43.3
% change	+5	-4	-3	+10	+2	+3
Last 3 months on a year earlier						
Apr-Jun 1986	6.3	38.4	44.7	7.6	33.7	41.3
Apr-Jun 1987 P	6.2	39.6	45.8	6.4	36.9	43.3
% change	-2	+3	+2	-16	+9	+5
Year to date on a year earlier						
Jan-Jun 1986	13.0	73.1	86.1	14.8	66.4	81.2
Jan-Jun 1987 P	12.1	81.0	93.1	12.2	73.0	85.2
% change	-7	+11	+8	-18	+10	+5

Percentage changes are based on rounded figures for Seasonally Adjusted and unrounded for Unadjusted figures

NB - = Less than half the final digit shown

P = Provisional estimate

HOUSEBUILDING STARTS AND COMPLETIONS

GREAT BRITAIN *

UP TO JUNE 1987

TABLE 1 — Thousands of dwellings

Period	Starts			Completions		
	Public	Private	Total	Public	Private	Total
1977	132.1	134.8	266.9	162.5	140.8	303.3
1978	107.4	157.3	264.7	130.7	149.0	279.8
1979	81.2	144.0	225.1	104.0	140.5	244.5
1980	56.4	98.9	155.2	106.9	127.5	234.5
1981	37.2	116.7	153.9	84.7	114.3	199.0
1982	53.0	140.5	193.4	50.1	123.9	174.0
1983	48.0	169.8	217.8	50.5	144.4	195.0
1984	40.2	153.7	193.8	50.1	153.3	203.4
1985	33.9	159.5	193.4	39.6	149.1	188.7
1986	31.8	173.7	205.5	33.3	160.0	193.3
UNADJUSTED						
1985 2nd quarter	9.3	44.7	54.0	10.2	36.6	46.8
3rd quarter	8.0	43.6	51.6	9.5	35.4	44.9
4th quarter	8.1	37.7	45.9	9.9	41.6	51.5
1986 1st quarter	7.7	35.6	43.4	7.4	34.8	42.2
2nd quarter	8.5	49.7	58.2	9.1	38.8	47.9
3rd quarter	8.2	49.7	57.8	8.0	39.6	47.5
4th quarter	7.4	38.7	46.1	8.8	46.8	55.6
1987 1st quarter P	6.9	44.3	51.2	5.9	39.6	45.6
2nd quarter P	8.5	49.9	58.4	7.3	39.9	47.2
1987 January	2.0	10.7	12.7	1.6	12.7	14.3
February	2.0	16.2	18.2	2.2	12.9	15.1
March P	2.9	17.4	20.3	2.1	14.0	16.1
April P	3.0	15.4	18.3	2.5	13.2	15.7
May P	2.6	16.7	19.3	2.2	12.7	14.9
June P	3.0	17.7	20.7	2.6	14.1	16.7
1986 January-June	16.2	85.4	101.6	16.5	73.6	90.1
1987 January-June P	15.4	94.1	109.5	13.2	79.5	92.8
SEASONALLY ADJUSTED						
1985 2nd quarter	8.4	40.0	48.4	10.3	38.4	48.7
3rd quarter	8.3	40.6	48.9	9.5	36.1	45.6
4th quarter	8.8	42.5	51.3	8.8	37.5	46.3
1986 1st quarter	7.9	40.5	48.4	8.4	37.8	46.2
2nd quarter	7.6	43.3	50.9	8.9	39.4	48.3
3rd quarter	8.4	46.4	54.8	8.0	40.6	48.6
4th quarter	7.9	43.5	51.4	8.0	42.2	50.2
1987 1st quarter P	6.8	47.8	54.6	6.6	41.6	48.2
2nd quarter P	7.9	44.9	52.8	7.5	42.1	49.6
1987 January	2.2	13.9	16.1	2.0	13.5	15.5
February	2.1	17.7	19.8	2.7	14.0	16.7
March P	2.5	16.2	18.7	1.9	14.1	16.0
April P	2.7	14.7	17.4	2.7	14.3	17.0
May P	2.5	15.9	18.4	2.4	14.5	16.9
June P	2.7	14.3	17.0	2.4	13.3	15.7
1986 January-June	15.5	83.8	99.3	17.3	77.2	94.5
1987 January-June P	14.7	92.7	107.4	14.1	83.7	97.8

* = Monthly figures include estimates for Wales and for Scotland and may be subject to small revisions

P = Provisional estimate

HOUSEBUILDING STARTS AND COMPLETIONS

ENGLAND

UP TO JUNE 1987

TABLE 2 — Thousands of dwellings

Period		Starts			Completions		
		Public	Private	Total	Public	Private	Total
1977		117.1	115.6	232.7	140.0	121.6	261.6
1978		93.1	133.6	226.7	113.9	127.5	241.4
1979		69.4	121.1	190.6	91.1	118.4	209.5
1980		46.8	84.1	131.0	93.9	109.4	203.4
1981		31.6	101.2	132.8	71.6	98.2	169.9
1982		43.7	122.9	166.6	42.5	107.1	149.6
1983		41.5	148.2	189.7	43.5	125.7	169.2
1984		35.3	133.4	168.7	42.7	132.7	175.4
1985		28.7	138.1	166.8	34.0	128.1	162.1
1986		26.8	151.8	178.6	28.4	138.3	166.8
UNADJUSTED							
1985	2nd quarter	8.2	39.0	47.2	8.8	30.8	39.6
	3rd quarter	6.6	38.0	44.7	8.1	30.6	38.8
	4th quarter	6.9	32.8	39.7	8.6	35.7	44.3
1986	1st quarter	6.5	30.5	37.0	6.3	30.1	36.4
	2nd quarter	7.2	44.0	51.2	7.7	33.2	40.9
	3rd quarter	7.1	43.4	50.4	6.5	34.1	40.6
	4th quarter	6.1	33.9	40.0	8.0	40.9	48.8
1987	1st quarter P	5.9	38.5	44.4	5.2	34.4	39.7
	2nd quarter P	6.8	44.0	50.9	6.3	35.1	41.4
1987	January	1.9	9.0	10.8	1.4	10.8	12.2
	February	1.8	14.3	16.1	2.0	11.0	13.0
	March P	2.2	15.3	17.4	1.8	12.6	14.4
	April P	2.5	13.5	16.0	2.0	11.4	13.3
	May P	2.1	14.6	16.8	2.0	10.8	12.8
	June P	2.2	15.9	18.1	2.3	12.9	15.2
1986	January-June	13.7	74.5	88.2	14.0	63.3	77.3
1987	January-June P	12.7	82.5	95.2	11.5	69.5	81.0
SEASONALLY ADJUSTED							
1985	2nd quarter	7.5	35.0	42.5	9.0	32.3	41.3
	3rd quarter	6.8	35.5	42.3	8.1	31.2	39.3
	4th quarter	7.5	36.8	44.3	7.7	32.3	40.0
1986	1st quarter	6.7	34.7	41.4	7.2	32.7	39.9
	2nd quarter	6.3	38.4	44.7	7.6	33.7	41.3
	3rd quarter	7.2	40.5	47.7	6.5	35.0	41.5
	4th quarter	6.6	38.2	44.8	7.1	36.9	44.0
1987	1st quarter P	5.9	41.4	47.3	5.8	36.1	41.9
	2nd quarter P	6.2	39.6	45.8	6.4	36.9	43.3
1987	January	2.0	11.6	13.6	1.7	11.5	13.2
	February	1.9	15.5	17.4	2.5	12.0	14.5
	March P	2.0	14.3	16.3	1.6	12.6	14.2
	April P	2.2	12.8	15.0	2.1	12.3	14.4
	May P	2.0	13.9	15.9	2.1	12.4	14.5
	June P	2.0	12.9	14.9	2.2	12.2	14.4
1986	January-June	13.0	73.1	86.1	14.8	66.4	81.2
1987	January-June P	12.1	81.0	93.1	12.2	73.0	85.2

P = Provisional estimate

PUBLIC SECTOR HOUSEBUILDING

STARTS AND COMPLETIONS

Not seasonally adjusted

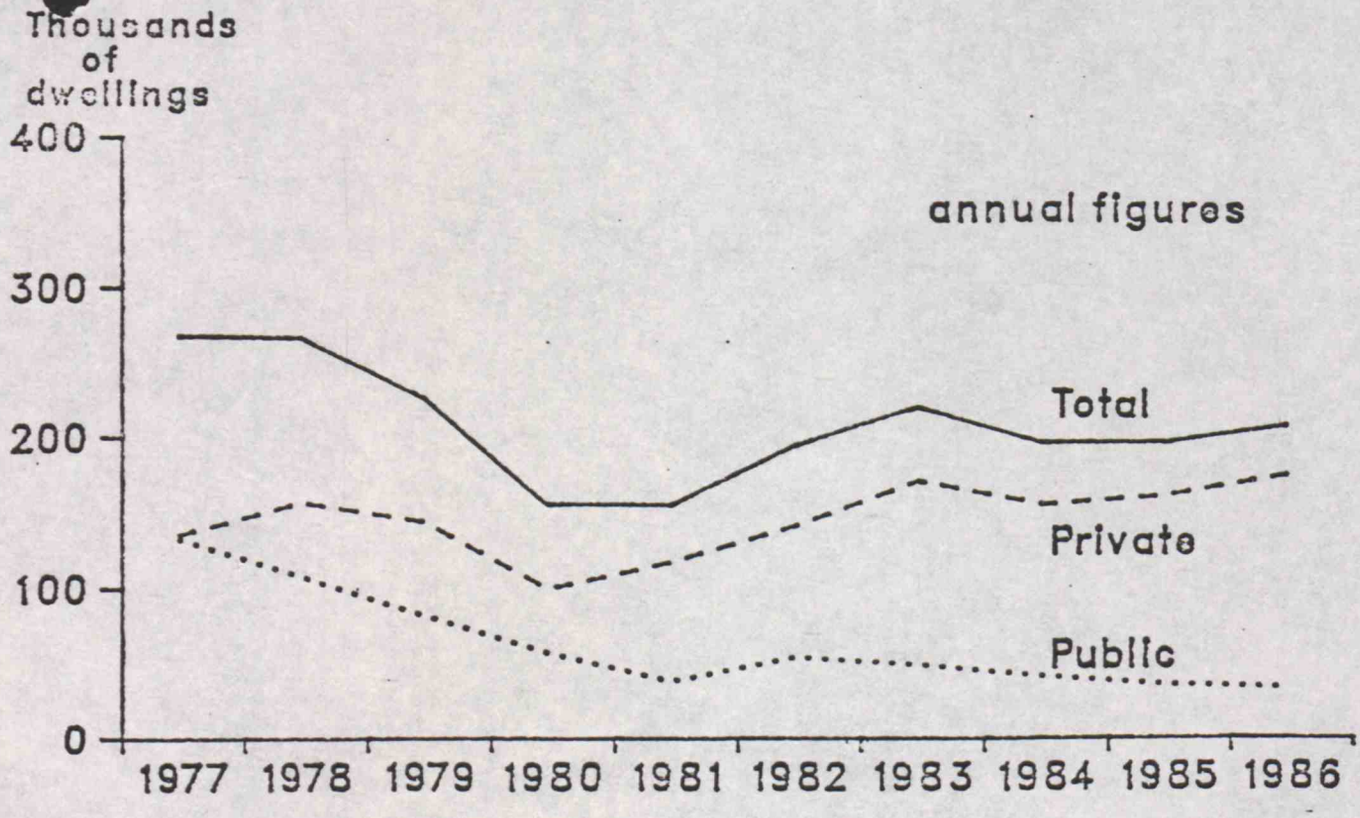
TABLE 3 — Thousands of dwellings

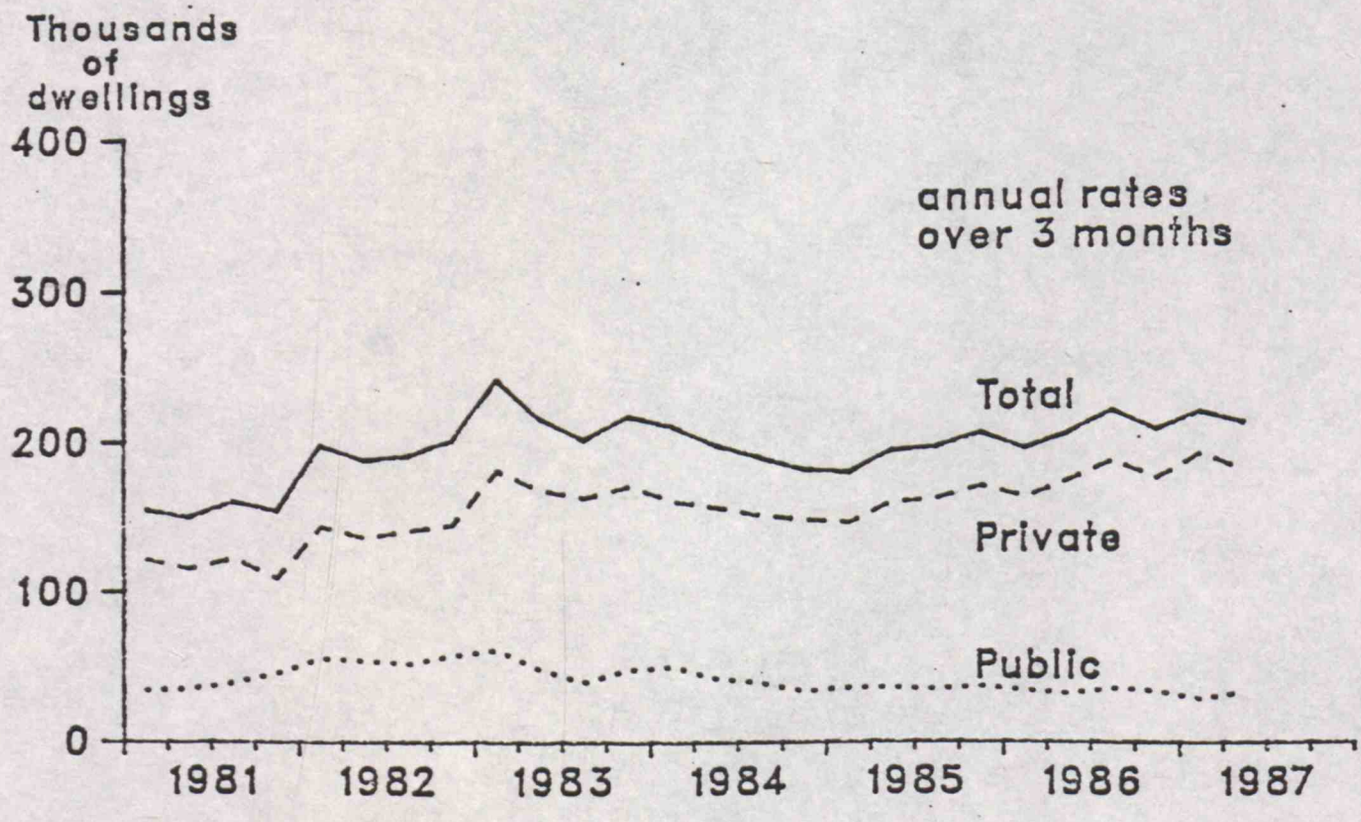
		Local authorities	New towns	Housing associations	Public sector *
GREAT BRITAIN - Started					
1984		25.9	1.1	12.8	40.2
1985		20.7	0.9	12.1	33.9
1986		18.9	0.7	11.9	31.8
1985	2nd quarter	5.5	0.3	3.5	9.3
	3rd quarter	5.3	0.2	2.4	8.0
	4th quarter	4.7	0.3	3.0	8.1
1986	1st quarter	4.6	0.2	2.9	7.7
	2nd quarter	4.5	0.2	3.8	8.5
	3rd quarter	5.3	0.1	2.7	8.2
	4th quarter	4.6	0.2	2.5	7.4
1987	1st quarter P	4.7	-	2.2	6.9
	2nd quarter P	5.4	0.1	2.9	8.5
- Completed					
1984		31.6	2.1	16.2	50.1
1985		26.0	1.0	12.5	39.6
1986		20.7	0.9	11.5	33.3
1985	2nd quarter	6.8	0.3	3.0	10.2
	3rd quarter	6.6	0.1	2.8	9.5
	4th quarter	6.4	0.2	3.3	9.9
1986	1st quarter	4.4	0.2	2.8	7.4
	2nd quarter	5.7	0.2	3.2	9.1
	3rd quarter	5.0	0.3	2.6	8.0
	4th quarter	5.5	0.3	2.9	8.8
1987	1st quarter P	3.9	0.2	1.9	5.9
	2nd quarter P	4.0	0.2	3.0	7.3
ENGLAND - Started					
1984		22.9	0.9	11.2	35.3
1985		17.9	0.6	10.0	28.7
1986		15.9	0.6	10.3	26.8
1985	2nd quarter	5.0	0.2	3.0	8.2
	3rd quarter	4.5	0.1	2.0	6.6
	4th quarter	4.0	0.3	2.5	6.9
1986	1st quarter	3.8	0.2	2.5	6.5
	2nd quarter	3.7	0.1	3.4	7.2
	3rd quarter	4.7	0.1	2.3	7.1
	4th quarter	3.8	0.1	2.1	6.1
1987	1st quarter P	3.9	-	1.9	5.9
	2nd quarter P	4.3	-	2.5	6.8
- Completed					
1984		27.2	1.7	13.5	42.7
1985		22.4	0.7	10.8	34.0
1986		17.9	0.7	9.8	28.4
1985	2nd quarter	5.8	0.3	2.7	8.8
	3rd quarter	5.6	0.1	2.4	8.1
	4th quarter	5.7	0.1	2.8	8.6
1986	1st quarter	3.9	0.1	2.4	6.3
	2nd quarter	4.9	0.2	2.6	7.7
	3rd quarter	4.3	0.2	2.0	6.5
	4th quarter	4.8	0.2	2.9	8.0
1987	1st quarter P	3.3	0.2	1.7	5.2
	2nd quarter P	3.3	0.1	2.8	6.3

P = Provisional estimate

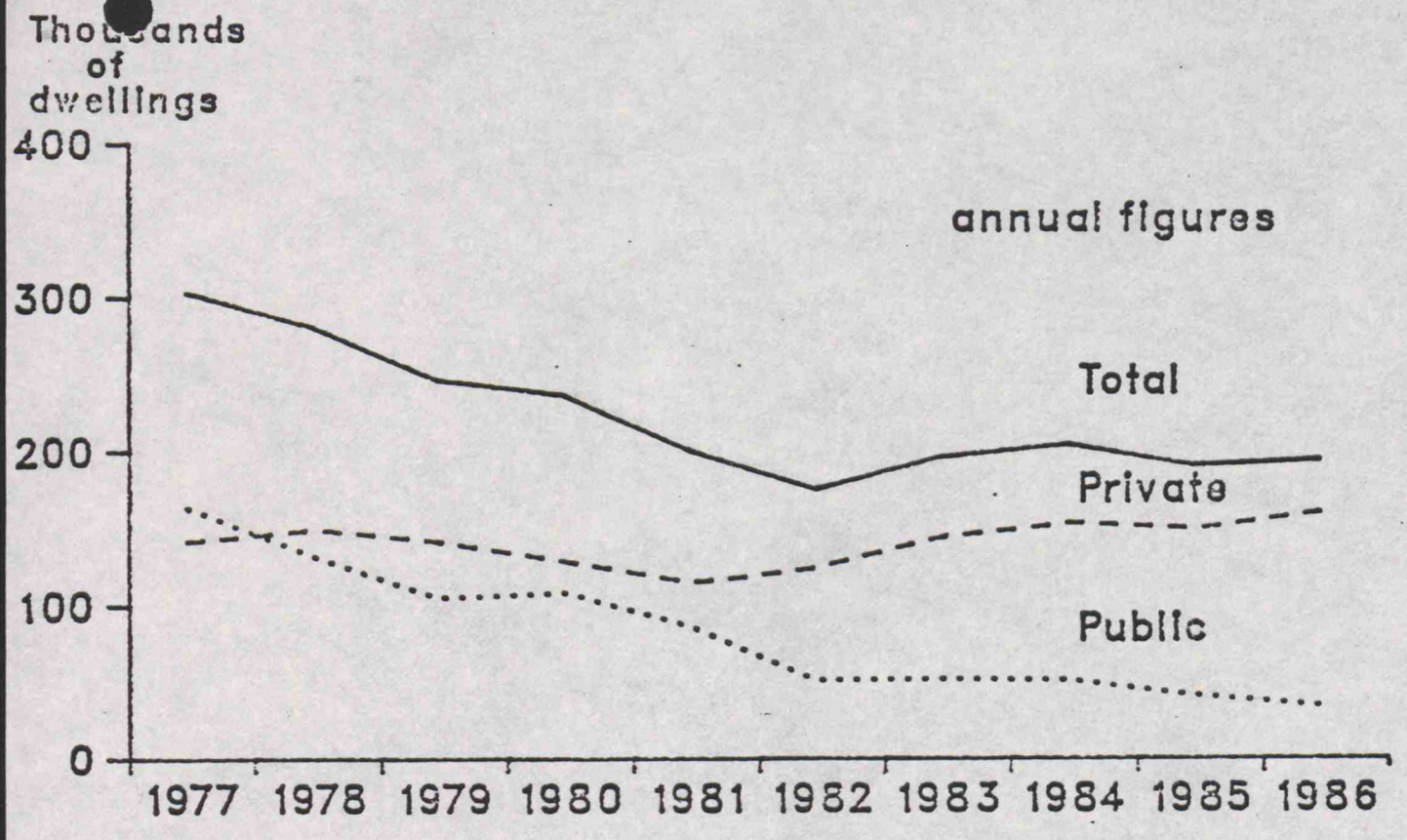
* Including Government Departments

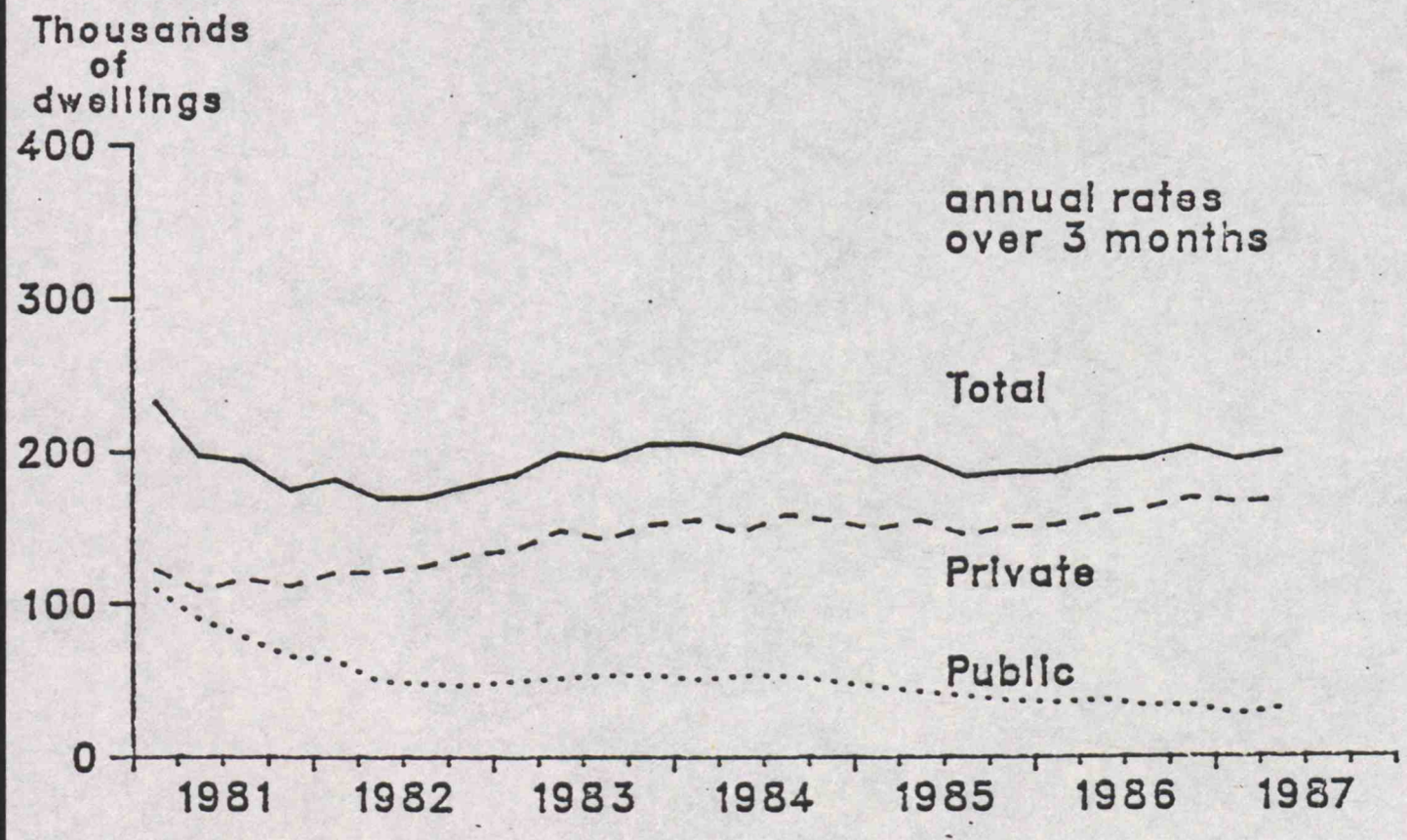
HOUSEBUILDING STARTS : GREAT BRITAIN





HOUSEBUILDING COMPLETIONS : GREAT BRITAIN





CCB/UR

CONFIDENTIAL

P 02804

PRIME MINISTER

HOUSING IN SCOTLAND
[E(LF)(87)33]

DECISIONS

The Secretary of State for Scotland seeks policy clearance for the provisions to be included in this Session's Scottish Housing Bill. The main clauses would provide for the creation of Scottish Homes, a new agency for housing in Scotland. Other provisions would mirror those proposed for England, including -

a. tenants' right to transfer to a new landlord or to form co-operatives;

b. deregulation of rents in the private rented sector.

But legislation on housing improvement grants would be left to a later Session.

BACKGROUND

2. Mr Rifkind issued a consultation paper (agreed by H Committee) on 7 May, proposing the establishment of Scottish Homes. The new Body would replace the Scottish Special Housing Association (SSHA) and take over the role of the Housing Corporation in Scotland (HCiS). It would have a wide range of powers to promote, and in some cases to implement, Government housing policy in Scotland. Comments on the Government's proposals were invited by 31 August. Subsequently the proposal to establish a new body was repeated in your Scottish Manifesto.

3. E(LF) has not previously discussed the application of specific housing initiatives (e.g. rent deregulation, tenants' right to transfer) to Scotland. But it has noted that most of these initiatives would need to apply to Scotland, possibly with some amendment to reflect Scottish conditions.

MR RIFKIND's PROPOSALS

4. The consultation period on the Scottish Homes proposal has not yet ended. Nevertheless, Mr Rifkind proposes to enact a framework which would enable him to create the new body, and give it the precise powers he later judged appropriate. He envisages that those would include power to -

a. provide grant aid to housing associations, along the lines proposed for England;

b. assist landlords, both public and private, in housing development and renovation. This assistance would include grant aid;

c. act as an intermiediary owner of property, particularly the 83,000 homes of the SSHA. The implication is that it would seek to transfer these dwellings to other landlords;

d. facilitate Government housing policies generally, including the right to buy and the right to transfer.

5. The other proposals which Mr Rifkind wishes to include in this Session's Bill (rent deregulation and the tenants' right to opt out of the local authority sector) follow equivalent English proposals, though with a special emphasis on tenant co-operatives. His proposals on improvement grants also follow those for England, but with some special provisions to help deal with tenement blocks which pose particular problems in Scotland. The need for these special provisions has been noted in E(LF), and the Environment Secretary has agreed in correspondence that they cause him no

problems. Mr Rifkind also proposes to abolish specific Exchequer support for improvement grant expenditure. This is something Mr Ridley would like to do, but has concluded is not feasible given the present capital controls and rate support grant systems in England: he proposes to review the situation before new systems are introduced in 1990/91.

VIEWS OF OTHER MINISTERS

6. These proposals should not cause problems for Mr Ridley. The Chief Secretary, Treasury may have rather different priorities from Mr Rifkind. He may argue that the housing improvement grant proposals should be brought forward in the current Session, because they offer scope for public expenditure savings. He may also prefer to see the Scottish Homes powers deferred to a later Session, when they could be drafted in the light of the outcome of consultation and full consideration of the new body's role. In any case he is likely to press for all the details of the Scottish Homes proposal to be subject to discussion with Treasury officials. The Business Managers will be primarily concerned with the amount that is included in a Bill in the present Session.

MAIN ISSUES

Scottish Homes

7. The main issue is whether you wish to agree to very wide legislation on Scottish Homes in this Session, before final decisions have been taken on its powers and operation, or whether you would prefer to defer it. The proposal for a new body predates the housing initiatives you have in hand for England. Mr Rifkind has grafted some of these onto it. This could result in a very powerful housing body. This could be welcome if it promoted Government policies: E(LF) has discussed the possible need for a body to promote the right to transfer in England and Wales. But there is also a danger that it may pursue its own, inconsistent policies - e.g. in relation to the large housing stock it takes on

from the SSHA.

8. If you do agree to legislation on Scottish Homes, you may wish to seek firm assurances from Mr Rifkind that he will have effective powers to ensure that the new body -

a. takes swift action to transfer as much as possible of its own housing stock to private landlords or housing associations;

b. effectively promotes the right to buy and the new right to transfer, and is not inhibited by the need to work with local authorities on renovation of tenements, etc;

c. promotes the maximum possible private financing of housing association new development.

Improvement grants

9. The provisions on improvement grants were offered by Mr Rifkind as candidates for deletion from the Bill under pressure from the Business Managers to reduce its length: apart from the normal constraints imposed by the very heavy legislative programme for this Session, there are special problems because of the shortage of Government MPs available to serve on the Scottish Committees. You will want to seek the views of the Business Managers if you are considering reinstating these provisions. One option - for which the Chief Secretary may argue - would be to drop the Scottish Homes clauses and legislate on improvement grants instead. It is important that a contentious Scottish Bill does not receive inadequate scrutiny in the Commons and land up in the Lords to compete for time with this Session's three major Bills.

TIMING

10. Policy clearance for the items which are to be included in the

Scottish Housing Bill is needed now, so that drafting can go ahead for introduction in the Autumn.

HANDLING

11. You will want to ask the Secretary of State for Scotland to introduce his Memorandum. The Environment Secretary may wish to comment, and the Chief Secretary, Treasury will wish to speak about the financial implications. The Lord President will wish to speak about the business management aspects. Other Ministers may also wish to comment.

J B UNWIN

Cabinet Office
27 July 1987

CCB/87

CONFIDENTIAL

P 02803

PRIME MINISTER

HOUSING BENEFIT
[E(LF)(87)36]

DECISIONS

The Sub-Committee needs to decide the basis for paying housing benefit to tenants on market rents once the private rented sector is deregulated. On the assumption that full benefit will be payable, but that strong action should be taken to avoid abuse, the main issues are -

i. whether controls on excessive claims should bite only on housing benefit subsidy from the Exchequer or also on actual benefit payable;

ii. how maximum eligible rents for particular dwellings should be set;

iii. how limits should be set on benefit payments in respect of unduly large or expensive accommodation.

The Sub-Committee may, however, also wish to consider more fundamental changes, such as restricting benefit to only a certain percentage of market rents, or removing eligibility altogether for some categories of lets - e.g. shorthold tenancies.

2. Mr Ridley is also likely to seek agreement to the publication of a Housing White Paper, as proposed in an earlier paper (E(LF)(87)21).

CONFIDENTIAL

BACKGROUND

3. Your election Manifesto proposed new forms of private tenancies (assured and shorthold) with rents at market or rate of return levels. No details of their eligibility for housing benefit were given. But the Manifesto also said that new controls would be introduced to prevent local authorities and private landlords exploiting the Exchequer through benefit on excessive rents. The implication was that benefit would continue to be paid on at least some of the new tenancies. You had, however, discussed (E(LF)(87) 9th Meeting on 7 May) the possibility that shorthold tenancies should not be eligible for benefit, but without reaching a firm conclusion.

4. You returned to these issues on 7 July (E(LF)(87)13th Meeting). Mr Ridley proposed that the new tenancies should be eligible for benefit, but with measures to prevent abuse where rents were excessive and where unduly large or expensive dwellings were occupied. Those measures would apply solely to Exchequer subsidy, not actual benefit payable: local authorities would retain the discretion to pay more in benefit if they felt it right, but entirely at the expense of domestic taxpayers. E(LF) did not feel that these measures went sufficiently far. You asked Mr Ridley to bring forward a new paper, in consultation with Mr Moore and Mr Major, containing more detailed proposals for tight controls on benefit costs. In particular, E(LF) favoured direct controls on the benefit local authorities were permitted to pay, not just on Exchequer subsidy.

5. Some members of the Sub-Committee also expressed a more fundamental concern about the public expenditure implications of paying housing benefit on market rents. As well as leading to more claimants and larger claims, there is also a danger that the level of rents accepted for benefit could push up market levels, further increasing costs. Some members may therefore favour more radical changes, such as paying benefit only on a proportion of market rents.

PAPER BY THE ENVIRONMENT AND SOCIAL SERVICES SECRETARIES

6. Mr Ridley and Mr Moore first put the case for paying housing benefit on market rents. They argue that this is implicit in the deregulation policy; that it is cheaper than extra council housing provision or bed and breakfast accommodation, which might be the alternatives for some HB recipients; and that the extra HB costs will be balanced by savings in local authority capital and revenue spending, and by increased tax revenues from landlords. They therefore favour full eligibility. They do, however, raise the possibility of paying benefit at only, say, 90% of market rents. But they believe this would have many of the same disadvantages as not paying benefit at all, albeit in less promounced form, and they reject it.

7. They therefore favour action to limit costs while retaining full benefit eligibility for reasonable market rents, and propose:-

a. that in general controls should bite on HB subsidy not benefit payable. They believe that this will protect the Government from criticism in hard cases - e.g. where families have to be evicted from a high rent dwelling and end up in bed and breakfast accommodation. But there is one exception - they do propose to limit benefit itself in the case of up-market accommodation (see d. below);

b. that individual rents should be referred to the Rent Officer, who would fix a limit for subsidy where the rent appeared unreasonable. The limit would be based on freely struck bargains in the market where sufficient evidence was available, or alternatively on a rate of return basis;

c. that subsidy should be restricted where accommodation exceeded prescribed space standards;

d. that both benefit and subsidy should be limited on the top 10% of the private rented market.

8. They also propose that local authorities should lose the right to register a rent on an existing regulated tenancy. This change could, of course, have the effect of increasing HB costs. But Mr Ridley and Mr Moore argue that it is desirable to stop authorities interfering in existing bargains freely struck between landlords and tenants, even though the latter have the right to register a fair rent.

VIEWS OF OTHER MINISTERS

9. The Chief Secretary, Treasury is likely to argue for changes which control benefit costs even more tightly. The paper notes (paragraph 11) his interest in limits on benefit payable not just a subsidy, to protect domestic taxpayers against the cost of excessive payments. He may also wish to argue for paying less than 100% benefit on market rents.

MAIN ISSUES

10. You might want first to decide whether to explore radical options to restrict eligibility for housing benefit in the case of one or both of the new forms of tenancy. One possibility would be complete removal of benefit - e.g. for shorthold tenancies. Mr Ridley believes that would substantially reduce the chances of revitalising the private rented sector, which is your key aim in this area. A less radical option would be to restrict eligibility to, say, 80-90% of the market rent. That would cut HB costs. But it might also force some tenants out of this sector. DHSS believe that it would require primary legislation, which would inevitably be very controversial. If you were eventually obliged to concede an increase in income support to cover the remaining 10-20% of rent costs (as in the case of your decision the residual 20% liability for rates before the Election) much of the advantage might be lost. You may therefore conclude that it is best to retain full

eligibility for benefit, but to introduce the tightest possible controls on abuses.

Limits on benefit or on subsidy

11. A limit on subsidy alone would leave responsible local authorities with the discretion to pay benefit on higher rents where the clear alternative was hardship, or a yet more expensive option like bed and breakfast accommodation. The main issue is whether this discretion would be abused at an unreasonable cost to domestic taxpayers. You will want to weigh this danger against the likelihood of damaging publicity for hard cases, noting that DHSS believe that limits on benefit would require primary legislation.

12. Paragraph 9 of the paper suggests three options for limiting subsidy, of increasing severity. Option a., which would simply withhold subsidy on benefit above the limit set by the Rent Officer, seems the most defensible. The other two options would also withhold all or part of the subsidy on benefit up to the limit. That would impose an even greater burden on domestic taxpayers. It is difficult to see how this could be justified, particularly where the discretion to pay benefit was exercised by a responsible authority in the hard cases Mr Ridley and Mr Moore foresee. If you decide to limit subsidy rather than benefit, you will probably want simply to withhold subsidy above the limit set by the Rent Officer.

Basis of limits on eligibility

13. Mr Ridley and Mr Moore's proposals on maximum rents for individual dwellings, and on unduly large or expensive accommodation, are more tightly drawn than in the previous paper. There was some concern at E(LF) on 7 July that a system which required the Rent Officer to look at individual benefit cases would be unduly bureaucratic. But Mr Ridley and Mr Moore claim that this can be avoided, and their approach certainly seems more practicable, and more likely to produce savings, than attempting to set

ceiling rents on an area basis. Their proposal on unduly large accommodation would give tenants a period of grace of 6 months after they became eligible for housing benefit (e.g. because of redundancy), which appears reasonable. You will probably want to approve these proposals.

14. However, their proposals on unduly expensive dwellings seem to sit slightly uneasily with their other proposals. In this case they suggest limits on benefit payable as well as on subsidy (which DHSS believe could in this case be achieved without primary legislation). They also suggest that the appropriate percentage of the market should be defined in terms of ceiling rents prescribed for each area in a statutory instrument. Mr Ridley and Mr Moore will argue that a tougher regime and some rough justice can be justified in the case of luxury dwellings. Nevertheless, you may want to probe the apparent inconsistencies with the arguments they use elsewhere in their paper. You may also wish to confirm that primary legislation is not needed for the recommended approach; and that the proposed area schedules would be politically manageable and proof from judicial review.

Housing White Paper

15. The Sub-Committee will also want to consider Mr Ridley's proposal to publish a Housing White Paper. You discussed this briefly on 7 July (E(LF)(87)13th Meeting, Item 1). Mr Ridley believes that it is desirable to publish a full statement of the Government's proposals, both to inform those with an interest in housing and as a basis for discussion with them about implementation. You were not convinced of the merits of this earlier, and you feared it might divert resources away from the preparation of the legislation. But you did agree to consider it again when you had discussed all aspects of the new housing initiative. In that connection you will particularly wish to note that Mr Ridley will want to say something in the White Paper about ring-fencing the local authority housing accounts. This was only considered in a general and preliminary way by E(LF) before the Election, and you

might want to pause for thought before much more is said about this than appeared in the Manifesto.

TIMING AND LEGISLATIVE IMPLICATIONS

16. If you approve the proposals in the Memorandum, legislation should only be required to put new duties on Rent Officers, and that could be done in the Housing Bill. But DHSS believe that measures to limit benefit payments to levels set by the Rent Officer for individual dwellings, or to limit benefit to only a proportion of rents, would require contentious legislation in this Session's Social Security Bill. You do therefore need to take decisions now about the general approach you wish to adopt, if not about the precise details.

HANDLING

17. You will want to ask the Environment Secretary and the Social Services Secretary to introduce their Memorandum. The Chief Secretary, Treasury will wish to comment. You will want to ask the Business Managers for their views if you are contemplating options which would involve extending the Social Security Bill. Other Ministers will also wish to comment.

J B UNWIN

Cabinet Office
27 July 1987

CONFIDENTIAL

PRIME MINISTER

24 July 1987

HOUSING POLICY

You are meeting to discuss the arrangements for making housing benefit available for private sector tenants once rents are deregulated and Mr Rifkind's proposals for housing in Scotland.

The Private Rented Sector: Housing Benefit

My note to you of 9 July (attached) set out the basic justification for making housing benefit available for private sector tenants once rents are deregulated and suggested some safeguards to discourage private sector landlords from raising rents at the taxpayers' expense. The latest note by Mr Ridley and Mr Moore proposes a similar set of safeguards, though leaving some questions open for final decision at the meeting. There are three matters that should be considered further.

First - should a limit should be placed on housing benefit or on the subsidy paid to local authorities? We agree that the limit should be on subsidy because there are bound to be a few deserving cases where great hardship would be caused if a limit was placed on benefit. But local authorities should be placed under the strongest pressure to exercise this discretion only in exceptional cases. Of the three options for limiting subsidy we therefore support the option of paying no subsidy at all on the whole of housing benefit where it is paid on rents above the maximum set by the Rent Officer. Local charge payers will have to meet the full cost in such cases and so local authorities will try, if at

all possible, to keep benefit to the assessed maximum. Second, Ministers before the election rejected paying housing benefit on only 80% or 90% of rents because, in order to avoid hardship, benefit rates would have to be raised to enable tenants to meet the other 10% or 20% - and this would be more costly than housing benefit.

The Chief Secretary has suggested that these problems would be avoided, whilst creating a disincentive to increase rent to above average levels, if housing benefit were paid in full only on the portion of rent up to a certain level and thereafter at the rate of 80% or 90%. The effect would be that above a certain level, tenants would have to meet an increasing proportion of the rent from their own resources. For example, if the threshold were set at £32 a week housing benefit would be paid on the rent, where it was £32 or less but, for example (if the rate were 80% on the excess) tenants would have to pay 80p a week on a rent of £36 and £1.60 a week on a rent of £40.

We support this approach because by choosing the limits and the taper carefully one could ensure that downward pressure was exerted on above average rents without causing unacceptable hardship to tenants. It might be possible to set those limits as a percentage of the area maxima Mr Ridley proposes.

Third, landlords and tenants of regulated tenancies may collude to create a new deregulated tenancy at a higher market rent in the same house. There needs to be a safeguard to ensure that benefit is only paid on a fair rent in these circumstances.

Housing in Scotland

Mr Rifkind's paper describes his proposals for a new housing agency "Scottish Homes". This would combine the functions of the Housing Corporation in Scotland (i.e. the supervision and financing of Housing Associations) with those of the Scottish Special Housing Association (which is not a conventional housing association but a public corporation with a considerable housing stock). In due course, Scottish Homes would divest itself of its housing stock, probably to a number of housing associations.

Mr Rifkind's paper does not explain clearly what powers Scottish Homes would have, what financial assistance it would provide, to whom or in what circumstances. It appears to envisage that Scottish Homes would have wide ranging powers to intervene in the housing market in Scotland by providing financial assistance to private owners, private landlords and housing associations, by working with local authorities to encourage diversification of ownership and tenure, by undertaking environmental improvement and by supporting community businesses.

We support the eventual transfer of the SSHA housing stock to the private sector, see no objection to creating a Scottish body to fund housing associations in Scotland and see a need (as in England) for an agency to encourage the transfer of local authority estates to private ownership and to stimulate enterprise. We are less clear about the role of Scottish Homes in relation to owner-occupiers and private landlords. We have so far rejected subsidising private landlords in England. Is this what is intended in Scotland or not?

Conclusion

We support the proposals in the joint paper on housing benefit for tenants of private landlords including the option of withdrawing subsidy on the whole payment where a local authority decide to pay housing benefit in full on rents above the limit assessed by the Rent Officer. In addition we suggest that housing benefit should not be paid at a declining rate on above average rents and that there need to be safeguards to avoid landlord and tenants colluding to convert regulated tenancies into deregulated tenancies at higher rents. ?

Whilst the basic idea of creating a new housing agency in Scotland to combine the functions of the Housing Corporation and the SSHA is sound, the details seem unclear. Particular scrutiny needs to be given to the proposal to give financial assistance to private landlords and private owners.

Peter Stredder

PETER STREDDER

CONFIDENTIAL

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SECRETARY OF STATE
THE ENVIRONMENT

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My ref:

Your ref:

The Rt Hon John MacGregor OBE MP
Ministry of Agriculture, Fisheries
and Food
Whitehall Place
LONDON
SW1

17 July 1987

NBPM

Dear John

As you know, the housing legislation we intend to introduce this session will include measures to deregulate rents of new lettings in the private sector. The present fair rent system applies to tenancies protected by the Rent (Agriculture) Act 1976 of tied cottages occupied by serving or retired agricultural or forestry workers, if a rent is payable or deducted from wages. Our officials have discussed the future position of tenancies protected by the 1976 Act and other minor issues affecting agricultural tenancies.

The main question is whether future 1976 Act tenancies should come into the new assured tenancy regime we are proposing as the standard form of letting for future private tenancies, or whether we should leave the Act untouched. (Existing tenancies would not be affected). Under the assured tenancy scheme, when a tenancy comes to an end, the tenant has a statutory right to a new tenancy at an agreed rent. In practice, he has indefinite security of tenure. There will be a number of grounds for possession, some based on those in the present Rent Act (eg for breaches in the terms of the tenancy) and some on the Landlord and Tenant Act 1954 (eg where the landlord wishes to redevelop). If both parties cannot agree on a new rent, either party will be able to apply to the rent assessment committee to fix a market rent.

I propose that future Rent (Agriculture) Act tenancies should be assimilated into the new regime. In the longer term we intend that the fair rent system should wither away and we do not wish to perpetuate an anomaly. There is no good reason why farmers should be the only category of landlord unable to obtain a market rent from their former employes. There are currently very few fair rent registrations under the Act - some 500-700 a year, few of which are ever re-registered - so the system is not heavily used.

I believe, however, that we should continue to use the services of the Agricultural Dwelling-House Advisory Committees to enable farmers to recover possession from their new-style assured tenants where they need the dwellings concerned for incoming agricultural employees. Despite a certain amount of initial mistrust, I understand that these Committees have won the approval of both

100%
RECYCLED PAPER

sides of the industry, and it will facilitate the acceptance of the new regime if their services continue to be available for new-style as for old-style tenants. I would therefore propose to include provisions on the lines of s27-29 of the present Rent (Agriculture) Act 1976 in the Bill.

On more minor issues, I do not propose enabling a landlord to obtain possession from an assured tenant on grounds equivalent to those in cases 16-18 to Schedule 15 to the Rent Act 1977. These have little relevance to future tenancies. But we should replicate s99 of the Rent Act, protecting low-rent tenancies.

Finally, I propose amending section 4 of the Protection from Eviction Act 1977 to enable resident landlords of agricultural tenants who share living accommodation with them to evict them, if they refuse to go when their contractual right to stay has ended, without needing to obtain a court order. This brings agricultural resident-landlord tenancies (of which I believe there are not many) into line with our proposals for all tenancies of resident landlords.

I should be grateful to know as soon as possible whether you are content with these proposals.

I am copying this to members of E(LF) and to Sir Robert Armstrong.

NICHOLAS RIDLEY

This is 100% recycled paper

CONFIDENTIAL

PRIME MINISTER

13 July 1987

E(LF) TUESDAY 14 JULY

You are meeting to discuss Mr Ridley's papers on a new grant system for Housing Associations and on tenants' right to transfer to a new landlord. I provided you with a note on the first of these on 6 July.

Tenants' Right to Transfer to New Landlord

Mr Ridley proposes giving council tenants who live in houses individually and those who live in flats where a majority vote in favour, the right to transfer to an independent landlord. In the latter case, those tenants who do not wish to transfer will be able to remain with the local authority who will be given a long lease on the flat which reverts to the new landlord when that tenancy comes to an end.

The terms of tenancy for those who transfer would be for negotiation between landlords and tenants and the price to be paid would be one which the landlord could afford to service from existing rent levels, after paying for essential renovation work. The new landlord would have to be "approved" by the DOE under a new system yet to be devised and transfers to tenant trusts and co-operatives would have to be approved by the Secretary of State.

This last condition is probably necessary because tenant trusts would have no track record but should not become an obstacle to such transfers, which should be encouraged. In order to make the approval procedure credible, it must be possible to withdraw approval. Tenants should then be able to re-opt.

CONFIDENTIAL

Alternatives for Tenants of Flats

At E(LF) on 7 May, Mr Rifkind suggested that tenants of flats might be given an individual right to transfer. Subsequent work by DOE officials suggests that it would be possible to do this by setting up a management company to own and manage the common parts of blocks of flats with shares owned by the landlords of individual flats in proportion to the number they own.

Mr Ridley does not propose this approach in his paper. Its advantages are that it would give tenants of flats the same rights as tenants of houses and that it would enable a concerted minority of tenants to transfer and show the advantages of transferring without needing to secure the prior agreement of a majority of other tenants.

On the other hand, it is not clear how much such transfers could achieve since the poor management of the common parts is often the major concern of tenants of flats and would remain the responsibility of the local authority so long as it remained the majority shareholder.

On balance, we therefore favour Mr Ridley's approach since it is also simpler. But tenants of flats who remain with the local authorities must subsequently have a right to transfer to the new landlord.

Marketing this Approach

The right to transfer is a key element in future housing policy. It is the main means by which the local authority monopoly on rented housing will be broken. But it does not offer tenants such clear and well understood advantages as the right to buy. In some areas, where the local authority has provided a poor standard of service and the quality of the housing stock is poor, there may be active tenants

associations ready and willing to exercise the right. This is already happening in Glasgow. But in other areas tenants may lack the leadership or the immediate spur of poor housing. In any case, tenants wishing to exercise the option may be daunted by the practicalities.

An agency therefore needs to be established to encourage tenants to exercise the right to transfer and to help them assess the options available. There might be a national agency or a series of local agencies, in both cases involving relevant private sector organisation such as housing associations and building societies.

Encouraging Enterprise

You are well aware that council tenants not only face poor housing conditions in some areas, but also high levels of unemployment, a lack of opportunity for enterprise, a lack of access to Department of Employment and MSC schemes and poor social and other facilities. The management companies that will be set up to run blocks of flats and other common areas on council estates provide an obvious focus for initiatives to bring employment and enterprise onto council estates but in themselves may not be sufficient. The attached note explains our ideas (see also paragraph 13 of Mr Ridley's paper). These measures, if presented skilfully, would provide tenants with a further reason to transfer. We suggest that the agency or agencies referred to above should also be given a role in promoting employment, enterprise and development.

Conclusion

We support Mr Ridley's proposals for giving tenants a right to transfer to a new landlord. In addition:

(i) tenants of flats who remain with the local authority

when a majority transfer should be able to transfer at a later date.

(ii) It should be possible to withdraw approval from independent landlords. In these circumstances tenants should be able to re-opt.

(iii) An agency or agencies should be set up to encourage tenants to exercise the right to transfer and provide them with assistance in evaluating the options;

(iv) Management companies will need to be set up to run the common parts of blocks of flats and other parts of council estates. More work should be done on developing their role in encouraging and promoting enterprise and employment along the lines set out in the Annex to this note. The agency or agencies referred to should also have a rule in assimilating these activities.

Peter Stredder

PETER STREDDER

ANNEX

ENTERPRISE ON COUNCIL ESTATES

The proposals for transferring ownership of local authority housing are an important mechanism for tackling both the condition of the housing stock itself and the design defects and general dereliction of common areas that can affect the whole character of the area. Contacts so far suggest that housing associations, the most likely new owners of council estates, will have neither the management time nor the expertise to tackle the wider economic and social problems of many council estates. We therefore need to establish a framework that facilitates other developments within the estate and encourages the growth of local enterprise.

The aim is to provide opportunities for employment for council tenants whether directly through industrial, commercial or retail development, or the provision of premises or indirectly through the development of private sector or owner-occupied housing development. A further objective is to improve social facilities on council estates. Where established, Housing Action Trusts will provide a direct means of stimulating such activity. But elsewhere other means will be needed. Opting-out enables housing estates to be transferred to new owners more sympathetic to such developments than the local authorities and with access to finance. But their main priority and expertise is in refurbishment of the housing rather than developmment of these other activities. We need a framework that will encourage a more pro-active approach to tackling the problems of the estate as a whole.

Current Opting Out Proposals

The proposals already being developed by the DoE to give council tenants a right to transfer envisage that management companies would be established:

(i) In blocks of flats, to own the freehold and manage the common parts where the tenants vote by a majority to exercise the right to transfer. The company would be owned by the new owner of the estate which might be a tenant trust or co-operative, a housing association or private landlord. Part of the transfer terms might be tenant shareholding in the company, even where the landlord was not a tenant trust or co-operative.

(ii) More generally, to own and manage land on council estates that cannot sensibly be attributed to an individual house or block of flats. The establishment of such a company could be triggered by a request from the landlord of any house or flat or a specified proportion of the residents of the area (owner occupiers or tenants).

These proposals also envisage establishing an agency to promote and facilitate transfers.

Encouraging enterprise

In suitable areas these management companies could be used as vehicles for encouraging enterprise and employment and taking an overall view of development opportunities for the benefit of the residents of the estate. Where it made sense to deal with the problems of a wider area with a single approach, a single holding company could be established to cover a number of pieces of common land and the common parts of one or more blocks of flats.

Although such companies would own the land or buildings with potential for enterprise or development their initial motivation and pre-occupation is likely to the improvement of housing. Tenant trusts and housing associations might not have the expertise and housing associations the wish to

promote opportunities to enterprise or development, other than housing development. Private landlords are more likely to have the expertise and see the opportunities and might have secured the tranasfer in return for a promise to promote these to the benefit of the tenants.

Clearly one cannot rely on the new structure above to catalyse the enterprise and development opportunities. We suggest the following additional measures:

(i) An agency, organisation or series of agencies need to be established to promote and facilitate such activities. This could be a public sector body, a partnership (on the lines of home improvement agencies) or a private sector trust such as Business in the Community. It should be brought into transfers at an early stage and might be the agency to be set up to promote housing transfers.

(ii) The areas in which they operated should be simplified planning zones allowing them to take advantage of development opportunities within the estate without blockage from the local authority and giving tenants a major say in developments.

(iii) In some cases, development gains will be sufficient to fund this activity. Elsewhere there might be worthwhile opportunities that required some seedcorn finance. One way of providing this would be as a discount on the price at which the estate was transferred from the local authority.

Conclusion

These proposals are intended primarily as a starting point for discussion. The key ingredient is to use the management companies that need to be set up to make the option to transfer work as the vehicle for encouraging employment and enterprise and development gains or adjustments to the transfer price as a mechanism for funding it.

cc B/up

CONFIDENTIAL

P 02784

PRIME MINISTER

TENANTS' RIGHT TO TRANSFER TO NEW LANDLORDS
[E(LF(87)31]

DECISIONS

The Sub-Committee is asked to decide on some of the detailed arrangements for the proposed right for council tenants to transfer to a new landlord, and in particular -

i. the procedure for exercising the new right;

ii. the way the right should apply to flats and maisonettes where there may be a mixture of willing and unwilling tenants;

iii. the arrangements for approving landlords;

iv. the financial terms of the transfer (ie whether transfer should be market valuation subject to tenancy, and whether these should be negative valuations).

BACKGROUND

2. E(LF) agreed before the election to create a new right for council tenants to opt to transfer to a new housing association or private landlord, and this proposal was included in your Manifesto. Some details were discussed on 7 May (E(LF)(87)9th Meeting). The Sub-Committee agreed that there should be a straightforward right for tenants in houses to transfer to an approved landlord. But you noted that further work was needed on the application of the policy

to tenants of flats and maisonettes: you felt that it would not be acceptable to transfer tenants against their will under this policy, e.g. because a majority in their block voted for it. You also noted that further work was needed on the financial implications, including the price for transferred dwellings and the overall public expenditure implications, and on the implications for the tenant's right to buy his dwelling.

3. You are also discussing at this meeting a separate Memorandum from Mr Ridley about Housing Associations. That paper is concerned with the financial arrangements for new building and refurbishment, and for re-lets of existing dwellings. It does not cover the financial arrangements for dwellings transferred to housing associations under the right to opt. Those are covered in the present paper.

MR RIDLEY'S PROPOSALS

4. The main proposals in the new paper are -

i. there should be a relatively simple procedure, with a minimum role for central Government. Tenants would initiate a transfer, but the crucial task of negotiating terms with the local authority would fall on the prospective new landlord. Tenant and landlord would enter into a contractual agreement, including among other things a commitment to keep rents at prevailing local authority levels, but with the prospect of increases if the property is improved. The tenant's right to buy would also be protected contractually;

ii. for flats and maisonettes, Mr Ridley proposes that the local authority would be obliged to transfer the freehold to a new landlord if an absolute majority of tenants voted for it. The local authority would be granted a long lease (e.g. 99 years) on the flats of those who wished to remain council

tenants, and would sub-let to them;

iii. the right would apply only to landlords approved by the Secretary of State. A blanket approval would be given to certain classes of landlords, e.g. registered housing associations. Other landlords - e.g. tenant cooperatives or some private companies - would have to be approved for a specific transaction;

iv. the financial terms of the transfer would be a price fixed (by the district valuer if necessary) as the market price subject to the tenancy, irrespective of the historic cost of the dwelling. In some cases, e.g. where major repairs are needed, this "market value" might be negative, and in that case the local authority would be obliged to provide a cash "dowry" with the dwelling. There would be no continuing public subsidy on transferred dwellings.

5. Mr Ridley also suggests a "powerful strategy" to promote the right to transfer, and counter obstruction by local government (partly through the disciplines of the proposed ring-fence around council housing accounts). He does not feel able to set targets for transfers, but proposes that take-up should be monitored and that further measures to stimulate transfers should be considered if they prove necessary.

MAIN ISSUES

6. Mr Ridley's proposals meet a number of the concerns which were expressed by E(LF) on 7 May. They preserve tenants' right to buy contractually, even if they move to a charitable housing association where the normal right does not apply. They also prevent tenants being transferred to a new landlord against their will. But there remain some potential problems.

Flats and maisonettes

7. Mr Ridley's proposal prevents the right to transfer applying to tenants of flats and maisonettes unless a majority in their block vote in favour. This is the reverse side of the problem E(LF) was concerned about previously. You need to decide whether this is acceptable, or whether you want to explore other options which would allow a minority or even a single tenant to opt. One option would be to require a local authority to set up a management company for flats where any tenant wished to transfer. A long lease would be sold to the new landlord, who would sub-let to his tenant. Mr Ridley has apparently rejected this approach because he believes that it would be complex, and leave too much power in the hands ofthe local authority (which would control decisions like the level of maintenance for the fabric and common parts). You may not agree.

Transfer valuation

8. Mr Ridley's proposal to fix transfer prices at a market valuation subject to the tenancy is a new departure for housing transfers in the public sector. In the past, transfers between public bodies have generally been on the basis of outstanding debt on dwellings, and housing subsidy entitlement has also been transferred. Mr Ridley quotes two very recent precedents: Thamesmead, which was transferred to a trust on the abolition of the GLC; and Telford New Town Housing, where negotiations are still in progress. The big advantage of his proposal is that it avoids the need for any continuing subsidy on the dwelling: the landlord would pay only the amount which he could finance from the continuing stream of rent income, net of the costs of funding refurbishment and maintenance. But it may give rise to some very low valuations, particularly at first when the uncertainties associated with tranfers may be substantial. The Government may be criticised for allowing public assets to be sold at knock down

prices, well below the cost of provision in some cases.

9. The extreme case will of course, be the negative valuation Mr Ridley envisages for some dwellings. He argues that such dwellings are already a drain on public spending, and that requiring a local authority to provide a "dowry" with the house or flat will simply make this explicit. It could nevertheless prove very controversial. Mr Ridley makes it clear that the dowry would count as mandatory capital expenditure for the authority, and this aspect is likely to be contested fiercely by local government. Some Members of the Sub-Committee took the view at the previous meeting that dowries would simply not be acceptable. You need to decide whether to accept Mr Ridley's proposals on valuation, and in particular the proposals for a cash dowry in some cases.

Public expenditure implications

10. As with the right to buy, the public expenditure implications of the right to transfer will be complex, affecting both the capital and current accounts in both the short and the long run. But the important immediate effects will be on the capital account, where Mr Ridley envisages that capital receipts will predominate over any dowry payments. That will reduce net local authority spending, but the exact way in which this affects public expenditure will depend on the details of the new capital control system which E(LF) has yet to discuss. The Chief Secretary, Treasury is likely to suggest that the public expenditure implications need to be considered in detail, but that this need not delay decisions on the legislation.

TIMING

11. Decisions on the details of the right to transfer are needed before the Recess, so that the necessary provisions can be drafted for inclusion in this Session's Housing Bill.

HANDLING

12. You will want to ask the Environment Secretary to introduce his paper. The Secretaries of State for Scotland and Wales, the Chief Secretary, Treasury and other Ministers will wish to comment.

J B UNWIN

Cabinet Office
13 July 1987

CC B/UP

PRIME MINISTER

TRANSFER OF TENANTS OF FLATS

One small comment: the paper (paragraph 11) does not discuss the costs of renovation of common areas. What will happen if the new landlord wishes to renovate these? Will the local authority be forced to contribute as sub-landlord and will there be adequate protection for the new landlord against obstruction of renovation by the local authority?

DN

(DAVID NORGROVE)
13 July 1987

CONFIDENTIAL

SRW
bcBG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 July 1987

Dear William,

LEGISLATION ON HARASSMENT AND ILLEGAL EVICTION

The Prime Minister has seen the letter from the Secretary of State for the Environment to the Home Secretary of 9 July about further measures to strengthen the legislation on harassment and illegal eviction. She would be grateful if the Home Secretary could consider again whether further measures to prevent harassment of landlords by tenants would be feasible.

I am copying this letter to the Private Secretaries to the members of E(LF), the Lord Chancellor, the Secretary of State for the Environment and Sir Robert Armstrong.

Yours,

David,

(DAVID NORGROVE)

William Fittall, Esq.,
Home Office.

CONFIDENTIAL

JL

CONFIDENTIAL

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CC/BG

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

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

13 July 1987

NBM.

Dear Nicholas.

HOUSING ASSOCIATIONS AND HOUSING ACTION TRUSTS

I thought it would be helpful if, in advance of tomorrow's discussion in E(LF) of your proposals for a more market orientated financial regime for housing associations, I recorded my main comments on your paper E(LF)(87)(24). I should also like to take this opportunity to register some comments on your proposals for Housing Action Trusts outlined in E(LF)(87)(25).

So far as housing associations are concerned, I fully appreciate that a more market orientated financial structure for housing associations is a logical feature of your general approach to the private rented sector. However, there are two important issues so far as my responsibilities are concerned. The first is, of course, the implications for housing benefit spending. Your paper E(LF)(87)(24) indicates that grant levels for housing associations will be set to ensure that rents, whilst higher than the present fair rent levels, are below the market rents set by rent offices which it is proposed should determine eligibility for housing benefit subsidy for the rest of the private rented sector. On this basis we must assume that the new rents charged by housing associations will be eligible for maximum housing benefit and that Central government subsidy will be payable in full.

The inevitable increase in housing benefit spending has been accepted in your paper for E(LF). Since the costings are still under detailed consideration by my officials, I am afraid that I am not yet in a position to confirm your estimates of the housing benefit costs. However, I am sure that we shall be able to reach agreement on a best estimate as the basis of the initial PES cover provided for the increase in my programme although the figure must

E.R.

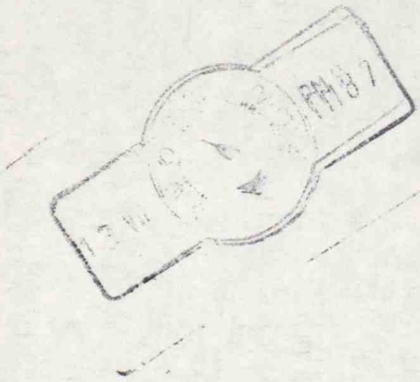
necessarily be derived from assumptions which are speculative at this stage. I regard it as essential, therefore, that there is adequate monitoring of the actual changes in housing association rents and the impact on housing benefit spending so that PES cover can be adjusted accordingly. I appreciate that this will not be straightforward and I should like our officials to give early consideration to how best to monitor the impact of the changes.

My other concern is about the impact of the proposals on housing association's traditional role in providing accommodation for vulnerable people. There is a risk that if housing associations become more market orientated they might relinquish or reduce their role in this area and that vulnerable tenants will be displaced with consequent increased pressures on local authorities and/or the social security budget. No doubt we can take this into account in discussing the transitional arrangements and the Housing Corporation's role.

My comments on your proposals for Housing Action Trusts (HATs) are on the same two themes. First, the proposals look bound to increase rents - either in the medium term as houses are refurbished or longer term if they are sold to other landlords - and since I would expect a high porportion of tenants in the HAT areas to be receiving housing benefit, then spending is sure to increase. It is not clear how these additional housing benefit costs could be satisfactorily controlled by local authorities. I therefore welcome John Major's suggestion that more detailed work needs to be done on how HATs would operate and what they would cost. It will be essential for my officials to be involved in this work. This will be an opportunity also to look at any safeguards needed to ensure that vulnerable people are not displaced and, therefore, need to be accommodated elsewhere.

I am copying this letter to other members of E(LF) and to Sir Robert Armstrong.

JOHN MOORE



CONFIDENTIAL

cc BS

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon Douglas Hurd MP
Home Office
Queen Anne's Gate
LONDON
SW1

Prime Minister 2

Harassment of the landlord by the tenant? D Rod
MT 10/7.

7 - July 1987

Dear Douglas

You will remember that at its meeting on 6 May (E(LF)(87)8th) E(LF) Committee approved my proposal for the decontrol of rents on new private lettings (E(LF)(87)4). I said then that I believed we should aim at presenting a balanced package, including measures to strengthen the existing legislation on harassment and illegal eviction; and that I intended to discuss with you the proposals we prepared on this when we last considered legislating in 1985.

attached

We have always recognised that there is a real risk that, following deregulation, existing Rent Act tenants would be harassed by landlords wanting to get rid of them in order to re-let at a market rent. This was what happened after the Rent Act 1957, and we want to take action to avoid any repetition of that saga of illegal evictions. Ian Gow wrote to Leon Brittan on 29 May 1985, at the time we last considered deregulating, proposing an amendment to Section 1 of the Protection from Eviction Act 1977 to make it easier to mount prosecutions against landlords for harassment and illegal eviction. There has been no change in the overall position on prosecutions for harassment and illegal eviction since then, and I am making the same proposal that Ian made on that occasion.

Section 1 of the 1977 Act makes it an offence for any person to evict unlawfully a residential occupier or to attempt to do so; or to harass a residential occupier with the intention of causing him to leave his home.

Section 1(3) provides that any person who, with intent to cause a residential occupier to give up his occupation of the premises or to refrain from exercising any right or remedy in connection with the premises, does acts calculated to interfere with his peace or comfort or persistently withdraws or withholds services, shall be guilty of an offence. There is evidence that it has been very difficult for those wishing to bring prosecutions to satisfy the twin tests of intent and misconduct. Although it may be possible to show that a person acted in a way which interfered with the occupier's peace or comfort, or withdrew services, proving that the person intended to evict the occupier has presented problems. I believe that this is one of the reasons why there have been so few prosecutions under the 1977 Act.

100% RECYCLED PAPER

At first we considered removing the test of intent, leaving the prosecution to prove only that misconduct had occurred. However, this change would make the offence in Section 1(3) too wide, opening up the possibility that landlords or even third parties who had done comparatively trivial things to annoy an occupier, but who had certainly not intended to drive him from his home, might be liable to prosecution.

I propose therefore that section 1(3) should be left intact and that a new offence should be added aimed only at landlords and licensors and their agents (Section 1(3) is not limited in this way), which is more objective and which can be proved more readily. I propose that it should be an offence for a landlord (or licensor) or his agent to do acts calculated to interfere with the peace or comfort of a residential occupier, or persistently to withdraw or withhold services where the landlord or agent knew, or had reasonable cause to believe, that his actions were likely to cause the occupier to leave his home, or to fail to pursue any right or remedy. This affords the landlord or agent who had persistently withheld or withdrawn services, the defence of showing that he had done so with reasonable cause. In my view, this would enable prosecutions to be brought against landlords guilty of harassment where the occupier could show that the landlord knew (for instance, because he had told the landlord) that his conduct was likely to be so intolerable to the occupier as to cause him to leave. Landlords withholding services for good reasons, eg in order to carry out building works to the premises would, however, have a defence against prosecution. The offence would attract the same penalties as the existing offences under Section 1.

I have also considered the question of enforcement of the existing law. There are currently very few prosecutions for offences of harassment and illegal eviction, partly for the reasons described above. The level of fines imposed for such convictions as are obtained is low. They have little deterrent effect. The Courts are, of course, entirely independent of government and we cannot try to influence their decisions. In sentencing they have to take many factors into account, and the sentencing decision is a complex one based on such factors as the gravity of the offence, aggravating or mitigating circumstances, and the defendant's means. In view of the possible consequences of deregulation and the need to show our concern that there should not be widespread disregard of the law, I propose indicating to the Magistrates' Association the potential nature and scale of the problem and asking them whether there is anything they can do by way of guidance to their members on sentencing, perhaps by way of their journal.

Our officials have also considered the scope for greater police involvement in prosecution. I have reluctantly accepted their conclusion that, because of the increase in other pressures upon the police, they cannot be asked to take on additional work,

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though they will of course intervene where violence is involved or threatened.

I shall be pursuing with Michael Havers the question of increased compensation for residential occupiers who are illegally evicted.

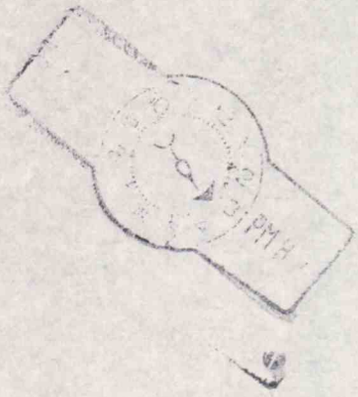
I am copying this letter to the other members of E(LF), to the Lord Chancellor and to Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

This is 100% recycled paper



cf cc P. Gregson and pa. DCr 13/7.

CONFIDENTIAL

PRIME MINISTER 2

9 July 1987

DCr 10/7.

HOUSING BENEFIT AND PRIVATE SECTOR RENTS

You might find it helpful to consider the issues that will be raised in next week's resumed meeting on housing benefit for private sector tenants.

There will always be a proportion of families who can only afford rented accommodation. Some of them live in council housing, some in housing association property and some in the private rented sector. If private landlords are unable to make an adequate return on the capital value of their house they will sell for owner occupation as soon as the dwelling becomes vacant. If we deregulate the private rented sector but fail to provide sufficient housing benefit for poor tenants, the number of privately rented houses available to poor tenants will equally continue to decline.

If homelessness is not to increase, we need to ensure that sufficient alternative rented accommodation is available for such families. The source of this accommodation would have to be one of the following:

i. local authorities

ii. housing associations and other non-profit making organisations

iii. a subsidised private rented sector.

Clearly we do not want to provide more council housing. Housing associations need to charge a rent of 8% or more of

the cost to cover their costs in full - an average rent of £51 per week if applied to the average cost of £33,000. Similarly, private landlords would be looking for a return in the range 6%-10% on the capital value of the property (according to the British Property Federation). On the average price of £37,000 paid by owner occupiers this yields rents in the range of £43 to £71 a week - an average of £57 a week.

These rents are beyond the means of poor tenants without some help. If we rule out increasing housing benefit, this can only take the form of direct subsidies to landlords.

There are clearly attractions in direct subsidies to landlords because they avoid adding to the number of people on state benefit. Indeed, in another paper, Mr Ridley proposes continuing to provide grants to housing associations. But there are disadvantages in relying exclusively on this approach:

a. It would be more expensive than a properly controlled system of benefits targetted on individuals at a level depending on their circumstances.

b. There would need to be controls on the type of tenant to whom subsidised landlords let, to prevent help going to those who did not need it.

c. It could not easily respond to changes in peoples' circumstances. If someone unemployed found a job at a reasonable wage, for how long would they be allowed to live in subsidised accommodation? Getting round this by tailoring rents to peoples' circumstances would amount to housing benefit in a different guise.

d. It would be inflexible. The supply of rented accommodation for poor people would depend on

Government decisions rather than consumer demand.

e. There would have to be arrangements to claw back grant from landlords who sold houses that had been subsidised.

In essence, this approach would maintain a system of publicly provided and subsidised rationed rented housing.

The policies set out in the Manifesto were intended to break away from this. Instead of more public expenditure, we would rely increasingly on the private sector to provide new rented housing. Because rents would rise to market levels housing benefit would increase but there would be a more than offsetting reduction in public expenditure on housing.

An increase in housing benefit expenditure (and probably in the number of tenants receiving benefit) for private rented sector tenants is therefore an essential part of a policy of placing increasing reliance on this sector and less on direct public subsidy to housing.

It is equally essential to ensure that this expenditure is properly controlled. Mr Ridley's proposals for individual limits on the rents eligible for housing benefit provide a framework for this approach but need to be made more rigorous as follows:

i. The rent on each housing benefit application should be scrutinised by a Rent Officer.

ii. If the rent is higher than a market rent, the Rent Officer should determine a market rent for the house.

iii. When fixing the market rent, the Rent Office should look only at comparable rents on properties where the

tenant is not receiving housing benefit. Where no such comparators are available a rate of return should be used. This should be the rate of rent on the current market value because the landlord could sell the house and invest the proceeds elsewhere. The rate of return should be fixed by the DoE area by area using evidence of the rate of return that landlords receive from market rents.

There may be no evidence

iv. The Rent Officer should also be asked for a view on whether the accommodation is too large for the tenants' needs, on the basis of rules laid down by the DoE. These rules might be more liberal for certain groups (e.g. elderly widows) than for others. Where accommodation is too large, the rent should be fixed at a market rent on a dwelling of similar quality but smaller size.

v. In order to prevent families on housing benefit being supported to live in upmarket or luxurious accommodation a ceiling should be set for each area and each type of house on the rent eligible for housing benefit. These ceilings should be designed to prevent housing benefit supporting tenants to live in homes with rents in, say, the top 10% for the type of accommodation.

vi. The local authority would be required to pay housing benefit only on the rent assessed by the Rent Officer, and would receive subsidy from the Exchequer only on that basis.

vii. However, local authorities would need some discretion to make an additional hardship payment in exceptional circumstances - for example to tide someone who had previously been paying rent in full from his own resources over a period of unemployment. But the

full cost of help (housing benefit plus hardship payment) in such cases should fall on ratepayers and chargepayers - in order to provide a strong element of accountability.

Conclusion

The private sector can only play a role in providing more rented accommodation in future if landlords can receive an adequate return on their investment as rents rise to market levels. Since we do not wish to see the supply of public sector and publically subsidised accommodation increased to meet the needs of poorer families, housing benefit will have to be provided to enable them to afford market rents in the private sector. Public expenditure on housing benefit will increase but, on balance, the taxpayer will be better off because of the saving in public expenditure. Provided there are rigorous safeguards, as identified above, we can meet the Manifesto commitment to ensure that "the housing benefit system ..... prevents landlords from increasing rents to unreasonable levels at the taxpayers' expense."

pp

PETER STREDDER

CONFIDENTIAL

PRIME MINISTER

6 July 1987

HOUSING POLICY

You are meeting to discuss four papers from Mr Ridley fleshing out most of the Manifesto proposals on housing policy. The main items missing are the tenants right to opt out, which will be discussed at a later meeting, and proposals for reforming local authority housing finance which Mr Ridley proposes to defer until the 1988-89 session.

The papers deals with issues of widely varying importance. We suggest you concentrate on three key issues:

(i) The private rented sector. Are the revised proposals on limiting rents for shorthold tenancies and on limiting housing benefit now right.

(ii) Housing Action Trusts. Do Mr Ridley's latest proposals reach the right conclusions about the character and scale of the HAT's.

(iii) New housing association lettings will be new-style assured tenancies. Should the Government continue to provide grants to reduce the proportion of income that housing association tenants devote to rent and, if so, how should the rate of grant be determined.

Housing Policy: The Government's plans

Mr Ridley's first paper gives an overview of the Government's housing plans. It proposes legislation on all

the Manifesto proposals except a new system of local authority housing finance. If the Bill has to be cut to meet the pressures on Parliamentary time, top priority should be given to the most politically important items - deregulation of private sector rents, tenants' right to opt out and Housing Action Trusts. You should resist suggestions that these should be cut out in favour of easier, less contentious items, such as home improvement grants.

Housing Action Trusts

Mr Ridley's second paper deals with Housing Action Trusts (HAT's). These are an important element of future housing policy. Their role should be to demonstrate what can be achieved by improving efficiency and harnessing the resources of the private sector in areas where the local authority is a monopoly landlord with all the poor service and other characteristics of monopoly suppliers.

Two aspects of this approach need be given more emphasis:

(i) The role of HAT's in bringing employment and enterprise onto council estates. There may be opportunities for providing premises for small scale manufacturing or service industries or for retail or warehouse development which provide employment for council tenants.

(ii) The character of HAT's. As far as possible, HAT's should not carry out housing management or renovation themselves but should operate through the private sector by, for example, disposing of run down estates to housing associations or other private sector landlords at a price that enables the landlord to refurbish without increasing rents. This avoids creating renewed dependency on the State, should

enable HAT's to operate at lower levels of expenditure and avoids giving local authorities the opportunity to say "we could have done as well had you allowed us to spend the same money".

My contacts in the City suggest that the private sector would be interested in funding this kind of approach provided, of course, the price is right and the area chosen is sufficiently large to allow development gains to offset the costs of refurbishment. The areas selected should be those where this approach is most likely to succeed.

Housing Association

At present Housing Associations receive all the finance for new provision from the public sector - typically in the form of a 90% grant and a 10% loan. The size of the grant is determined by the fact that Housing Associations have to charge fair rents. Mr Ridley's third paper considers alternative arrangements once Housing Association rents are deregulated.

The paper does not consider the fundamental question of whether any subsidies should continue to be available to Housing Associations once rents are deregulated but takes it for granted. A possible approach is to say that in future, Housing Associations should receive no subsidy and charge whatever rent is needed to cover their costs. Housing benefit would be available to help less well off tenants. However, this approach would result in rents for a 3 bedroom flat ranging from £47 a week in the lowest cost areas to £75 a week in Inner London. With rents this high, almost all housing association tenants would be on Housing Benefit - with all the well known effects on incentives to work.

We therefore support Mr Ridley's proposal to give grants to Housing Associations sufficient to reduce the rents on newly

provided property to roughly the same proportion of gross income (16%) as first time buyers at the bottom end of the market would spend on a mortgage which would bring the rents quoted down to a range of £30 to £35 a week - a level which tenants in work can afford to meet without Housing Benefit.

Owner occupied and private rented sectors

Mr Ridley's fourth paper deals with the right to buy, home improvement grants, the private rented sector and Housing Benefit.

Housing Benefit

The most important issue is the system Mr Ridley proposes for ensuring that private sector landlords do not exploit Housing Benefit. Instead of his earlier proposal for area limits he proposes setting individual limits. The note at Annex 1 describes how this system would work in practice (since this is not at all clear from Mr Ridley's paper). We agree with this approach since it avoids the problems with area based limits set out in Annex A to Mr Ridley's paper. It is consistent with moving towards a more liberalised rented housing market whilst protecting poorer tenants and the taxpayer.

Shorthold Rents

Mr Ridley also wishes to change the basis on which rents for shorthold tenancies will be fixed from the landlord's return to market value. We agree that a rate of return system would to some extent be arbitrary and that a system based on market rents is preferable. But clear guidance will need to be given to Rent Officers to ensure that they set rents that are genuinely market rents and not administered rents set at a discount on rents for assured lettings. These have

security of tenure and, in a balanced market, should therefore command a higher price. But where demand exceeds supply, rents on shorthold tenancies should be at or above the level on assured lettings.

Resident Landlords

We also suggest suggest that Mr Ridley might go further than he proposes on Resident Landlords and abolish all controls. He already envisages ending rent control and allowing landlords who share essential living facilities to evict tenants without a court order. But in other cases he envisages that the Courts will have the power to suspend an eviction order for up to six weeks. Abolishing all legal restrictions on such lettings should be a powerful incentive to make accommodation available once potential landlords know that they will have complete control over such lettings.

Conclusion

We support Mr Ridley's proposals for legislation, but note that QL have asked for them to be cut back. Deregulating the private rented sector, establishing HAT's and giving tenants a right to transfer to an alternative landlord should be given the highest priority.

We support Mr Ridley's revised proposals on fixing rents for shorthold tenancies. We also support Mr Ridley's proposals for setting individual ceiling on rents for Housing Benefit purposes. However, we suggest that he might go further than he proposes and abolish all controls on lettings by resident landlords.

Mr Ridley should press ahead with proposals on HAT's, but specific emphasis should be given to bringing employment and

enterprise to council estates. As far as possible, HAT's should operate through the private sector and areas should be chosen with the prospect of the success of this approach in mind.

We support Mr Ridley's proposals for a new system of grants to enable Housing Associations to let new properties at rents that are reasonable in relation to the incomes of those of their tenants who are in work.

Peter Stredder

PETER STREDDER

ANNEX A

PROPOSED METHOD OF LIMITING HOUSING BENEFIT

(i) A tenant would apply to the local authority for Housing Benefit to help him pay a particular rent on a particular property.

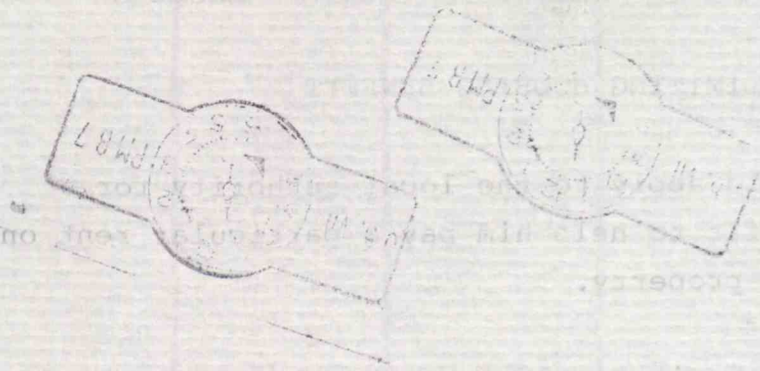
(ii) The local authority would pass the papers to the Rent Officer. In the majority of cases the Rent Officer would be able to approve the rent on the basis of his knowledge of market rents in the area.

(iii) In some cases he might consider that the rent was high in relation to market rents in the area. If, for example, he had recently considered similar properties he would be aware of market rent levels in the area and would fix a maximum eligible rent.

(iv) If not, he would need to look into the case more closely and fix a rent either by looking at other information about rent, free to determine between (unsubsidised) tenants and landlord or by looking at the landlord's rate of return.

(v) Initially, where there was insufficient information about freely stuck market rents, the Rent Officer would look at the landlord's rate of return; the local authority would normally pay Housing Benefit on the basis of maximum eligible rent, but would have discretion to pay at a higher level. However, Exchequer support would be limited to the Housing Benefit payable on the maximum eligible rent.

Over and above this, there would be arrangements, possibly involving the Rent Officer, to ensure that tenants did not occupy accommodation that was unnecessarily large or luxurious.



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CONFIDENTIAL

CCBG

Treasury Chambers, Parliament Street, SW1P 3AG

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

NBPM.

6TH July 1987

Dear Nick,

HOUSING ACTION TRUSTS

I have seen your paper (E(LF)(87)25) expanding on your proposals for enabling legislation for Housing Action Trusts (HATs). attached

As you know, E(LF) previously agreed to proceeding with HATs only on the basis of a pilot scheme. They did so since a number of key issues about HATs' implications for public expenditure, their costs and their underlying objectives have yet to be addressed.

That is still the case. In particular, we have no estimates of the costs of individual HATs or the outputs they should achieve. The priorities underlying your objectives between encouraging private sector involvement and owner-occupation on the one hand and improving standards for a relatively poor population of existing tenants do not seem to be clear. The criteria for selecting HATs and for evaluating their success need to be quantified - by leaving too much to judgement we would be unable to ensure a programme was effectively targetted.

HATs also need to be seen in the context of our other urban initiatives. We should avoid unnecessary proliferation of bureaucracy. We should therefore consider if there are advantages in combining any HATs' initiative with your proposals for low-budget UDCs. The aim should be where possible to amalgamate their management locally in a single organisation to minimise duplication of effort.

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Although all these issues are unresolved, you have bid for £270 million additional public expenditure on HATs over the Survey period (£20 million, £100 million and £150 million respectively in the Survey years). This would add substantially to existing pressures on spending totals and I do not see how such a bid can either be reconciled with earlier agreement to a limited pilot scheme or justified in advance of the evaluation of such a scheme. In agreeing that the HATs proposal should be taken forward we assumed efficiency savings would flow from reduced dependence on local authorities and that private finance and direct involvement of the private sector would substantially restrain HATs' resource requirements. Given those restraints, and the fact that there will be offsetting savings in the provision that the local authorities which HATs displace would need to make, I do not accept that the costs of any initiative cannot be met within existing provision.

Nor do I see how we can possibly finalise our position on legislation until a good deal more work has been done. Otherwise we risk proceeding with an initiative which is not fully prepared. At the very least I think we should delay instructions to Counsel until the second tranche you will be preparing for September. I suggest in the meantime we should ask your officials and mine to carry out urgent further work and bring forward detailed proposals on how HATs would operate within a framework of no net overall additions to public expenditure.

I am copying this letter to members of E(LF) and to Sir Robert Armstrong.

Yours Ever,
John

JOHN MAJOR



CONFIDENTIAL

P 02768

PRIME MINISTER

HOUSING POLICY: HOUSING ACTION TRUSTS: E(LF)(87)25

DECISIONS

The Sub Committee needs to decide whether the Environment Secretary should be authorised to press ahead with the preparation of legislation on Housing Action Trusts as a matter of urgency, or whether this should await his further discussions with the Treasury on the operational problems and public expenditure implications.

2. You may also wish the Sub Committee to express a view on the rate of expansion and piloting arrangements that the Environment Secretary outlines, bearing in mind that the Chief Secretary still has substantial reservations.

BACKGROUND

3. Housing Action Trusts are the Environment Secretary's preferred machinery for attacking housing problems in the very worst local authority areas. Within their geographical boundaries, HATs would take the entire housing function out of the hands of the local authority. They would introduce good management, repair the worst stock and seek to hand over the improved housing to a variety of owners and landlords. Their general character would be similar to that of UDCs. Together with UDCs and the proposals being developed on education, they represent a common thrust to take various under-performing functions out of the hands of local authorities.

4. When the Environment Secretary brought these proposals to E(LF) on 6 May (E(LF)(87)8:3) he had in mind the creation of four HATS, rising to eight, with up to 20,000 dwellings each, representing the entire housing function of the local authority concerned. At a rule of thumb cost of £10,000 per dwelling that would represent more than £1.5 billion in all. The Environment Secretary readily conceded that a large number of operational and public accounting questions needed to be resolved and that there was no very close precedent for the problems that might arise in prising out a sensitive function of this kind from the hands of a hostile local authority. It would be necessary to find absolutely top grade management and staff to carry out these undertakings, and the displaced people involved from the local authority hierarchy might not be suitable. Nevertheless, the Environment Secretary believed that the very worst local authority housing problems were so appalling that only a head-on appraoch, on the lines of HATs, could have any hope of success.

5. He also recognised that his proposals were inherently likely to stimulate challenges via judicial review, and would need to be constructed with that in mind. In particular, he would need to work up criteria for the establishment of an HAT, to protect him from allegations of arbitrary intervention.

6. When you summed up the discussion on 6 May you noted that none of the Environment Secretary's proposals had been worked out in any detail, and that the public expenditure proposals were unacceptably high. You did not think at that time that it should be assumed that the proposal could be incorporated in legislation this autumn, but you thought it would be right for the Government to indicate that it was considering developing the UDC idea for housing, and to acknowledge that pilot schemes would be required. The Manifesto therefore stressed the UDC analogy and said that the Government "would take powers to create Housing Action Trusts - initially as a pilot scheme".

MAIN ISSUES

7. The Environment Secretary now reports that, after further detailed study, he believes legislation should be taken in the Housing Bill this Session, with a view to the first HAT being set up towards the end of next year. On size of area, he has changed his mind and now favours areas of 3,000-5,000 dwellings. That would represent a large housing estate rather than the entire housing function of a local authority, and he recognises that there are problems about the collection of data in areas of less then local authority size. This may make problems for the establishment of objective criteria, and hence proofing against judicial review, but Mr Ridley proposes to approach it by involving independent consultants on the lines of the designation procedure for UDC areas.

8. On the number of HATs, Mr Ridley's inclination is to set up two HATs in London and one in each metropolitan area, (eight in all) and to conduct an evaluation of two early schemes about three years after they have been launched. In all other important respects, the proposals are little advanced from what the Sub Committee saw before the Election. The financial regime for the HATS, the development of performance indicators and the public expenditure implications are all for negotiation. The Environment Secretary is, however, clear that it would be a political mistake to start on this enterprise without adequate funding and has therefore put in a bid for £270 million over the survey period.

9. You will remember that at the meeting on 6 May the Chancellor of the Exchequer said that he was very worried about the whole HAT idea. The Chief Secretary's letter of 6 July is a comprehensive list of Treasury anxieties. He points out that there is no estimate of costs or outputs, that the criteria for selection and evaluation are not quantified, that no linkage is spelt out with other urban policy developments, and that the Environment Secretary's PES bid takes the proposal beyond anything that could be called a limited pilot scheme and does not make proper

Below
Not yet received. I'll send it up when it does.

provision for offsetting savings. The Chief Secretary believes that these reservations are so substantial that any idea of legislation should be put off until they are worked through in much more detail. At the least, he would like instructions to Parliamentary Counsel put off until after the Recess.

COMMENT

10. There is, quite clearly, a very large range of public expenditure and other issues to be sorted out before HATs can get off the ground. The Government will need to have a story to tell about these in any White Paper that might be published. But the immediate question is simply whether or not any of these, very understandable, Treasury reservations need delay the preparation of the legislation. The answer to that seems clearly to be "No". All that is at issue at this stage is the construction of an instrument, not the use that might be made of it, and we cannot see any respect in which the framing of these enabling powers needs to await the resolution of the points raised by the Chief Secretary. Looking ahead to the presentation of the clauses to Parliament, it would clearly be desirable at that stage for the Ministers in charge of the Bill to say as much as they can about the anticipated scale of use and rate of build-up of HATs. But, even then, it would not be necessary for the Government to have answers to every hypothetical question.

11. The judgement whether to go ahead in these circumstances is essentially a political one. But if you felt that the HAT proposal, with its Manifesto paternity and its relevance to urban policy, was one that should go ahead straightaway, there is no technical argument to the contrary. And if the provisions are to go in the Bill they should be given the most careful and urgent consideration from now on, since this is the part of the Bill thatwill be most liable to attract judicial review and which needs therefore the most attention from the draftsmen.

Detailed Issues

12. It would not be possible for the Sub Committee to have anything more than a Second Reading debate on the other questions canvassed by the Environment Secretary and the Chief Secretary. There is, quite frankly, simply not enough information in the papers to enable a discussion in any depth. Nevertheless, you may wish to elicit at least a preliminary exchange of views on the question whether the exercise should proceed by building up from a limited pilot study (as the Sub Committee decided on 6 May) or by way of a virtually simultaneous initiative in eight areas, with an evaluation in two of them following later (as the Environment Secretary now proposes). The arguments on both sides are fairly clear. The cautious build-up could not have a wide impact for 5 years or more, while the "big bang" approach would be inherently risky. At the end of the day, everything would surely depend on the success in recruiting really top grade management to run this novel enterprise. You may particularly wish to probe the Environment Secretary on how confident he is about that, bearing in mind the other similar demands that he will be making for new blood to run the new UDC and mini UDCs.

13. Your conclusion may be that everything to do with HATs except the inclusion of enabling provisions in the Housing Bill should be remitted back to the Environment Secretary and the Chief Secretary, to consider further and report back to the Sub Committee after the Recess. At that time you will doubtless wish to ensure that the matter is handled in a way that provides the desired amount of political momentum for the proposals, without weakening the Treasury position vis-a-vis the Department of the Environment in the public expenditure round. That may be a difficult balance to strike, but it is not a matter that needs to be addressed now.

HANDLING

14. You will wish the Environment Secretary to introduce his paper, and the Chief Secretary, Treasury to speak to his letter of

6 July. The Welsh Secretary may also wish to speak. (The proposals do not apply to Scotland).

15. The Lord President may wish to comment on the need for getting on with drafting urgently, if the provisions are to be included in the Bill.

16. The Trade and Industry Secretary, and other Ministers concerned with urban policy, may wish to comment on that dimension of the proposals.

J B UNWIN

6 July 1987
Cabinet Office

CONFIDENTIAL

p 02767

PRIME MINISTER

HOUSING ASSOCIATIONS
[E(LF)(87)24]

DECISIONS

The Sub-Committee is asked to agree the main features of a new financial regime for housing associations.

BACKGROUND

2. E(LF) discussed housing associations on 6 May (E(LF)(87)8th Meeting, Item 2). It agreed that they had a major role to play in the Government's housing policy, both as a source of new housing to rent and as candidates to take over responsibility for parts of the council housing stock. It accepted Mr Ridley's outline proposals to change the Housing Association Grant (HAG) regime in ways which would encourage associations to seek more private investment in new stock. New lettings and re-lets would be deregulated, and associations would be expected to charge affordable rents, between existing fair rents and market levels. Existing tenants would, however, remain on fair rents. E(LF) noted that these proposals would have public expenditure implications, which would need to be considered carefully in developing the proposals.

MR RIDLEY'S PROPOSALS

3. Mr Ridley's Memorandum develops his earlier proposals. The main points are -

i. that the overall level of Government capital grant to housing associations in each region should be calculated as a

CONFIDENTIAL

fixed percentage of the new build programme. Different percentages would probably be fixed for different regions, with a national average of about 50% (which it is not proposed should be stipulated in statute, although the Treasury may contest this). The remaining capital costs would be met from index-linked private sector loans, financed by affordable rents;

ii that within a system of programme funding the Housing Corporation would have the flexibility to pay more to some schemes and less to others. Marginal costs would fall to be met by the associations, removing the need for detailed bureaucratic controls. There would be upper limits to weed out schemes which offered very poor value;

iii. transitional arrangements for the early years of the new regime, as private financing builds up. These would be similar to the present Housing Association Grant (HAG) arrangements, but possibly with higher rent levels and less grant;

iv. incentives for associations to charge higher rents on re-lets (currently running at some 5% of the stock a year) and to economise on costs. This would mean adjusting the existing Grant Redemption Fund so that associations kept perhaps a third of any rental surpluses, and applied them for housing purposes - e.g. refurbishment, new provision.

Secondary proposals include ending Exchequer grant for local authority support to housing associations; delegating grant functions to the Housing Corporation; and extending the powers of associations in relation to commercial property linked to housing. The intention is that the Housing Bill would provide the framework for these reforms, but leave the details to be determined by Ministers.

MAIN ISSUES

4. In broad terms, these proposals seem to provide a sensible way forward as far as new build by housing associations is concerned. But their success will depent crucially on two conditions -

i. that the housing association movement - which is voluntary, keenly aware of its responsibilities towards the more needy and not subject to Government direction - will embrace the new regime;

ii. that the private sector will be willing to provide low start, index-linked loans on the scale required (perhaps £200-300 million per annum by year five)).

You may want to ask Mr Ridley what assurances he has received about these points, and what his Department is doing to sell the proposals to the associations and the financial institutions.

5. As far as re-lets are concerned, the proposals are consistent with your general policy of encouraging an increase to more economic rent levels throughout the rented sector. Allowing associations to keep a proportion of the surpluses generated by higher rents will no doubt encourage some - those who wish to invest in new provision or refurbishment - to go down this road. But others may have no use for additional funds. Many associations - given their general aims - may also have reservations about charging higher rents to new tenants. It would therefore be unrealistic to expect Mr Ridley's proposals to lead to a universal move to higher rents on re-lets.

Public expenditure implications

6. At present the full cost of HAG funded new build, counts as public expenditure - that is, both the HAG itself (on average 85% of the cost) and the loan taken out for the remaining cost. In paragraph 22 Mr Ridley provides figures for the effects of his proposals, on the assumption that in future the privately funded

element would not score as public expenditure (the Treasury does not entirely accept this - see below). On this basis there would be a cut in public capital expenditure, an increase in housing benefit costs due to higher rents, and an increase in income to the Grant Redemption Fund (GRF). He presents two extreme options for year five of the new regime -

i. with constant public expenditure the level of housing association capital expenditure on new build could be about £800m, £200 million higher than at present, providing 16,000 units. Housing benefit would be up £92 million, offset by equivalent savings on HAG and the GRF;

ii. with a constant new build programme (i.e. around £600m and 12,000 units) public expenditure could be reduced by £134 million.

However it should be noted that the public expenditure cost of a constant programme would be expected to increase in subsequent years, as more tenants came onto higher rents, raising benefit costs.

7. Mr Ridley favours the first option - an expanded new build programme with public expenditure at least at the present level. He argues that housing associations will expect higher rents and lower grant levels to free resources for a longer programme, and that their cooperation will be essential to the success of the policy. However, Treasury Ministers are likely to contest this approach. They can be expected to argue -

i that at least part of the benefit of the new system should be taken as reduced public expenditure, albeit with a higher level of new build than at present. This implies an option somewhere between the two extremes;

ii. that in any case the full cost of schemes which are supported by more than 50% grant should continue to count as

public expenditure, even though the residual cost is met by private finance. This would undermine Mr Ridley's "programme" approach, and substantially reduce the public expenditure savings he is counting on.

If these two points were accepted, they would imply a much smaller increase in the new build programme than the £200 million quoted by Mr Ridley, and public expenditure savings of well under £134 million.

8. It is not necessary to decide now on the exact level of public expenditure to be directed to housing associations. This should be settled in the forthcoming PES. But you will want to decide whether to accept the Treasury's argument that the full cost of schemes with less than 50% private funding should still score as public expenditure. They will argue that the Exchequer is bearing the majority of the risk on such schemes. Mr Ridley will counter that the private sector will still be risking its own money, and that the association will have to bear marginal costs - e.g. cost overruns. You will also want to decide how far Mr Ridley can go publicly in promising a higher level of new build under the new regime - he would clearly like to be able to promise no reduction in public expenditure, taking HAG, housing benefit and the GRF together.

Transitional Arrangements

9. Mr Ridley says that the transitional HAG arrangements for schemes which do not attract private finance could either be the same as at present, or could be based on higher rent levels and lower grant. The latter course seems more consistent with your general policy on rents. Furthermore a choice between conventional HAG funding with low rents and private financing with high rents could deter associations from moving in the direction you want. You will probably want to press for transitional arrangements which also assume "affordable" rents.

HANDLING

10. You will want to ask the Environment Secretary to introduce his paper. The Chief Secretary, Treasury will wish to comment on the public expenditure implications. The Secretary of State for Social Services will want to speak about the housing benefit costs. The Secretaries of State for Wales and Scotland and other Ministers will also wish to comment.

J B UNWIN

Cabinet Office
6 July 1987

HOUSING POLICY PT9

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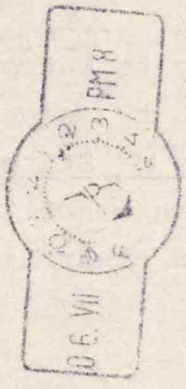

P 02766

PRIME MINISTER

OWNER OCCUPIED AND PRIVATE RENTED SECTORS

[E(LF)(87)22]

DECISIONS

The Sub-Committee is asked to agree detailed proposals in relation to a number of separate areas of housing policy. They are -

i. right to buy (RTB). Proposals designed to facilitate further sales;

ii. housing improvement grants (HIGs). Proposals on grant clawback, Exchequer support for grants and for simplifying insulation grant arrangements;

iii. private rented sector. Proposals on rights of possession and rents;

iv. housing benefit. Proposals on maximum rents eligible for housing benefit subsidy.

BACKGROUND

2. The Sub-Committee considered earlier papers on these issues on 6 May (E(LF)(87)8th Meeting) and 7 May (E(LF)(87)9th Meeting. The main proposals agreed then were announced in your Manifesto. The background in relation to each area is discussed below, followed by a brief analysis of Mr Ridley's new proposals.

RIGHT TO BUY

3. E(LF) agreed on 6 May that the Environment Secretary should consider intervening under existing powers to improve RTB

performance in a number of recalcitrant boroughs, and take further steps to publicise tenants' rights. It also agreed in principle his proposal to put financial pressure on authorities who delayed sales. The Sub-Committee also considered the abolition of the cost floor, which prevents sales at less than the cost of building or improving a house since March 1974. It recognised that this approach could be right for flats, but that there could be substantial criticism if recently built houses were sold below cost price. E(LF) therefore asked for the possibility of abolition to be considered further.

4. Mr Ridley now proposes -

i. to penalise delay in RTB sales by allowing tenants to count rent payable during the delay towards the capital cost of the dwellings;

ii. to allow local authorities to use the proceeds of a sale to cover the administrative costs involved (which will prevent them claiming that financial pressures are holding up sales);

iii. to abolish the cost floor (or, if this provokes serious opposition, to offer a compromise, e.g. ignoring costs incurred five years or more before the date of sales).

He does not refer to intervention over sales, or publicity measures. You may want to ask about progress in these areas.

5. The first two proposals seem sensible. The first should provide some disincentive to delay. The second removes a legitimate cause of complaint that the Government expected authorities to incur the administrative costs of sales while at the same time penalising them through block grant if they increased spending.

6. However, the proposal to abolish the cost floor raises the same problems as when E(LF) last discussed it. It might help to

stimulate some sales which are prevented by the cost floor at present, particularly sales of recent dwellings which may not be attractive at cost price. But it could also attract criticism if perfectly saleable houses were sold below cost. E(LF) will wish to decide whether the advantages outweigh the disadvantages. You may also wish to consider alternatives such as the one Mr Ridley mentions (costs over 5 years old to be disregarded).

HOUSING IMPROVEMENT GRANTS

7. E(LF) agreed on 6 May that improvement grants should in future be means-tested, in order to target them where they were most needed. But it asked the Environment Secretary to do further work on the possibility of clawing grant back where a property was sold (he had proposed no clawback) and on the future of specific Exchequer grant in support of local authority improvement grant expenditure (where he had raised the possibility of ending Exchequer support).

8. Mr Ridley now proposes -

i. a simple clawback scheme to enable authorities to recover a proportion of an improvement grant if a property is sold within 3 years. Clawback would be on a sliding scale over the 3 years, but would not apply below a regional threshold price for the dwelling;

ii. not to abolish specific grant at present (because this could remove the incentive for authorities to give grants, and have undesirable effects on the distribution of grant overall) but to consider this again in the context of a new capital control system;

iii. to consider with the Secretary of State for Energy, possibilities for simplifying home insulation grants.

9. You will want to decide whether the clawback scheme Mr Ridley proposes goes far enough to meet E(LF)'s earlier concern. It would prevent gross abuse of grants - e.g. where an owner sought a grant with the intention of selling the property immediately after improvement. But it would not prevent some owners making capital gains if they were willing to accept only a fairly short delay, or benefitting from grants when they were unemployed and subsequently getting a job (Mr Ridley says that the latter could not be taken account of "without costly administrative procedures"). But it probably strikes a reasonable balance between preventing abuse and creating disincentives to taking up grants. Mr Ridley's other proposals require no positive decisions at this stage. (It was he who raised the possibility of ending specific Exchequer grant towards HIGs - in view of the financial disruption this would cause, he is almost certainly right to favour deferring it until 1990/91).

PRIVATE RENTED SECTOR

10. This is the most important area on which early agreement is needed. E(LF) agreed on 6 May to Mr Ridley's proposals for new forms of shorthold tenancies (with no security of tenure on expiry but with a right to register a rent) and assured tenancies (with security of tenure but no rent registration). It also agreed that most statutory controls on lettings by resident landlords should be removed (this has been the subject of subsequent correspondence between your office and Mr Ridley, but without changing E(LF)'s general conclusion); and that there should be new legislation to prevent harassment of tenants by landlords and of landlords by tenants.

11. Mr Ridley now seeks agreement to a number of detailed proposals -

i. there should be a mandatory right of possession where a tenant is three months in arrears with the rent, perhaps subject to some very restricted exceptions (e.g. where a local authority's failure to pay benefit was to blame);

ii. registered rents for shorthold tenancies should be set at market rates, but taking account of the restricted level of security (rather than on a rate of return basis as previously proposed);

iii. there should be no right for new tenants of resident landlords to register a reasonable rent;

iv. there should be no new offence of harassment of a landlord by a tenant.

Mr Ridley is also seeking a joint examination by DOE and Treasury Officials of the tax treatment of private landlords.

12. Most of Mr Ridley's proposals seem reasonable. A mandatory right of possession over rent arrears is consistent with the more commercial relationship between landlord and tenant embodied in the assured tenancy proposal, although there could be a small proportion of hard cases. The proposal on "market rents" for shorthold tenancies is probably more workable than "rate of return" rents, although it could lead to some very high rents in areas of housing shortage, e.g. London. The outcome of the earlier correspondence supports the proposal on resident landlords. But you will want to decide whether you are content to let your earlier concern about harassment of resident landlords by tenants drop. Mr Ridley points out that such tenants have no security anyway, and can be evicted. On the other hand a new offence of harassment might deter such behaviour, and allow the police to take action in serious cases.

HOUSING BENEFIT

13. E(LF) agreed on 7 May that there should be limits on the level of rents eligible for housing benefit subsidy, to prevent landlords and tenants exploiting the Exchequer. It commissioned further work on two possible ways to set limits: on the basis of general thresholds for each type of dwelling in an area; and on a dwelling-by-dwelling basis. E(LF) also discussed whether shorthold

tenants should be eligible for benefit: it noted that there were arguments in both directions, and deferred a decision on this issue. Mr Ridley's paper is only concerned with the first issue. It does not deal with eligibility for shorthold tenants, and you may want to ask him about progress on that.

14. Mr Ridley now proposes limits on the subsidy payable towards benefit (not on the benefit itself - local authorities could pay more out of their own resources in hard cases) which would restrict subsidy -

i. where the rent exceeded a maximum rent set individually for that dwelling by the Rent Officer (not set on an area basis as suggested earlier);

ii. where the claimants were occupying larger accommodation than they needed;

iii. where the property was unduly expensive by comparison with others in the area.

I understand that these proposals are acceptable to the Social Services Secretary.

15. The proposal for the Rent Officer (who is statutorily independent of local authorities and funded by central Government) to set a maximum rent for a particular dwelling seems much more workable than the alternative of ceilings for dwellings of different types in each area. But it will be labour intensive - Mr Ridley estimates that it will increase the £20m current cost of the rent office service "by 25% or more". The other proposals seem unexceptionable, although they too will mean loading more on to the Rent Officer, and the details remain to be worked out. You will probably want to endorse Mr Ridley's proposals in this area, subject to agreement on the details with the Ministers concerned.

HANDLING

16. You will want to ask the Environment Secretary to introduce his proposals. The Social Services Secretary will wish to comment on the proposals on housing benefit. The Chief Secretary, Treasury and other Ministers will also wish to comment.

J B UNWIN

6 July 1987
Cabinet Office

CONFIDENTIAL

P 02765

PRIME MINISTER

HOUSING POLICY: E(LF)(87)13th MEETING
THE GOVERNMENT'S PLANS: E(LF)(87)21

BACKGROUND AND MAIN ISSUES

Immediately before the General Election you chaired a series of meetings of E(LF) to settle the outlines of the Government's policy which was then described in the Manifesto. The Sub Committee now needs to go over all that ground in more detail. This is essential in order to enable work to proceed at full speed on the preparation of the Housing Bill that must be introduced as soon as possible after the Recess.

2. E(LF)(87)21 is a convenient summary and overview. It indicates how the proposals on the owner-occupied sector, the private rented sector and the local authority rented sector are linked by the underlying theme of establishing a market so far as possible, and maximising consumer choice. This is simply convenient scene-setting before the Sub Committee gets down to the individual issues on which separate papers have been circulated, and most of E(LF)(87)21 does therefore not call for discussion.

3. The paper does, however, expose two very important handling and presentational issues on which decisions will be needed soon. These are

i. how topics should be distributed between the Housing Bill in this Session and the one that will be needed next Session; and

ii. the timing of a White Paper in the present Session.

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Contents of Housing Bill

4. On the scope of the first Housing Bill, the essential point is that the legislative programme will prove extremely difficult to manage if any of the three main Bills (Housing, Abolition of Rates and Education) should drift late. There is not much room for manoeuvre on the Abolition of Rates Bill, since it forms a conceptual whole. Similarly, the contents of the Education Bill were spelt out in some detail in the Queen's Speech and it would be extremely difficult to jettison any components of it now. The position on the Housing Bill, however, is different for two reasons. First, the Queen's Speech simply spoke about measures "to effect a major reform of housing legislation", so there is no immediate commitment to specific topics in the present Session; and, second, there will have to be a Bill next Session in any event, to implement the proposals on ring-fencing the local authority housing revenue accounts which Mr Ridley accepts should be deferred. So any matters that are not ready for a Bill this Session could, if necessary, simply be carried over into next Session's legislation.

5. The Lord President has therefore agreed with the Environment Secretary that the Bill in the present Session should be restricted to whatever can be introduced by the middle of November, and he will be reporting this to Cabinet when they consider the legislative programme on Thursday. Even on this footing, however, decisions need to be made about the order of priority of the possible components of the Bill, to ensure that administrators and draftsmen concentrate on the items of most political importance. It is quite clear that private rented sector deregulation, along with the limitation of housing benefit subsidy, must be the core of this Session's Bill. You may wish to stipulate Housing Action Trusts and local authority tenants' right to opt for new landlords as the two next items of political priority. That would leave changes in the law on housing associations, the improvement grant system and right to buy arrangements as second order topics, which might be included in

this Session's Bill or not, depending on progress with the drafting.

6. In the event, it might well be possible to include all the topics that Mr Ridley has in mind in the present Session's Bill. But the advantage of an arrangement on the lines indicated above is that it would ensure the early start for the Bill that the business managers regard as essential, while ensuring that attention is directed to the most difficult and important issues. In particular, you will wish to ensure that any legislation that is introduced on this subject is prepared with scrupulous care to minimise the risks of judicial review.

7. For ease of reference, in tabular form the priority order suggested above would be:

1.	Private Rented Sector	Top priority: core of this Session's Bill
2.	Limitation of Housing Benefit	
3.	Housing Action Trusts	Next priority for this Session's Bill
4.	Right to opt for new landlord	
5.	Housing Associations	For inclusion in this Session's Bill subject to progress on drafting.
6.	Improvement Grant System	
7.	Right to Buy Arrangements.	

Issue of White Paper

8. The second handling question raised in E(LF)(87)21 is the possibility of issuing a White Paper before the House of Commons rises on 24 July. Given the range of matters on which policy decisions are still required, and the public expenditure implications attached to some of them, Mr Ridley's timetable seems

distinctly ambitious. You may judge that it would be wiser to delay a White Paper until after the Recess, by when its policy contents can be considered in much more depth.

HANDLING

9. You may wish to say that E(LF)(87)21 exposes the whole range of issues that might be included in this Session's Bill, and also canvasses the idea of an early White Paper. Decisions will need to be taken on both those points at the end of the present meeting when the individual items (on which separate briefs are attached) have been discussed. I suggest you take these in the following order (now reflected in a revised agenda for the meeting):

(i) Private Rented Sector (E(LF)(87)22);

(ii) Housing Action Trusts (E(LF)(87)25);

(iii) Housing Associations (E(LF)(87)24).

Right at the outset, however, the Lord President might like to comment on any problems with the timing and length of the Bill.

10. At the end of the meeting, and subject to the course of discussion, you may wish to ask the Environment Secretary to agree to a selection of priority items for the Bill and to a White Paper being published at a time that the Sub Committee regards as practicable.

J B UNWIN

6 July 1987
Cabinet Office



PART 8 ends:-

HOME SEC TO CST 30.6.87

PART 9 begins:-

J.B. UNWIN TO PM 6.7.87


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